

HEALTHCARE SERVICES GROUP INC  
Form 10-Q  
April 23, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended March 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-12015

HEALTHCARE SERVICES GROUP, INC.  
(Exact name of registrant as specified in its charter)  
Pennsylvania  
(State or other jurisdiction of  
incorporated or organization)

23-2018365

(IRS Employer Identification No.)

3220 Tillman Drive, Suite 300, Bensalem, PA  
(Address of principal executive offices)  
Registrant's telephone number, including area code:  
(215) 639-4274

19020

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES  NO

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Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock, \$.01 par value: 71,485,000 shares outstanding as of April 20, 2015.

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Healthcare Services Group, Inc.  
 Quarterly Report on Form 10-Q  
 For the Period Ended March 31, 2015

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report and documents incorporated by reference into this report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, which are not historical facts but rather are based on current expectations, estimates and projections about our business and industry, our beliefs and assumptions. Words such as "believes," "anticipates," "plans," "expects," "will," "goal," and similar expressions are intended to identify forward-looking statements. The inclusion of forward-looking statements should not be regarded as a representation by us that any of our plans will be achieved. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Such forward-looking information is also subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, risks arising from our providing services exclusively to the health care industry, primarily providers of long-term care; credit and collection risks associated with this industry; having several significant clients who each individually contributed at least 3% with one as high as 8% of our total consolidated revenues for the three months ended March 31, 2015; our claims experience related to workers' compensation and general liability insurance; the effects of changes in, or interpretations of laws and regulations governing the industry, our workforce and services provided, including state and local regulations pertaining to the taxability of our services and other labor related matters such as minimum wage increases; continued receipt of tax benefits arising from our corporate reorganization and self-funded insurance program transition; risks associated with the reorganization of our corporate structure; and the risk factors described in Part I, Item I. of our Form 10-K for the fiscal year ended December 31, 2014 under "Government Regulation of Clients," "Competition" and "Service Agreements and Collections," and under Item IA. "Risk Factors."

These factors, in addition to delays in payments from clients and/or clients in bankruptcy or clients for which we are in litigation to collect payment, have resulted in, and could continue to result in, significant additional bad debts in the near future. Additionally, our operating results would be adversely affected if unexpected increases in the costs of labor and labor-related costs, materials, supplies and equipment used in performing services could not be passed on to our clients.

In addition, we believe that to improve our financial performance we must continue to obtain service agreements with new clients, provide new services to existing clients, achieve modest price increases on current service agreements with existing clients and maintain internal cost reduction strategies at our various operational levels. Furthermore, we believe that our ability to sustain the internal development of managerial personnel is an important factor impacting future operating results and successfully executing projected growth strategies.

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## PART I — FINANCIAL INFORMATION.

## Item 1. Financial Statements (Unaudited).

## Healthcare Services Group, Inc.

## Consolidated Balance Sheets

	(Unaudited)	
	March 31, 2015	December 31, 2014
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$58,292,000	\$75,280,000
Marketable securities, at fair value	11,855,000	11,799,000
Accounts and notes receivable, less allowance for doubtful accounts of \$4,352,000 as of March 31, 2015 and \$6,136,000 as of December 31, 2014	211,412,000	198,128,000
Inventories and supplies	35,418,000	35,462,000
Deferred income taxes	2,246,000	3,455,000
Prepaid income taxes	—	912,000
Prepaid expenses and other	11,028,000	9,792,000
Total current assets	330,251,000	334,828,000
Property and equipment:		
Laundry and linen equipment installations	2,727,000	2,578,000
Housekeeping and office equipment and furniture	34,539,000	33,546,000
Autos and trucks	209,000	232,000
	37,475,000	36,356,000
Less accumulated depreciation	24,411,000	23,584,000
	13,064,000	12,772,000
Goodwill	44,438,000	44,438,000
Other intangible assets, less accumulated amortization of \$17,042,000 as of March 31, 2015 and \$16,232,000 as of December 31, 2014	19,539,000	20,349,000
Notes receivable — long term portion, net of reserve	2,716,000	5,179,000
Deferred compensation funding, at fair value	24,291,000	24,742,000
Deferred income taxes — long term portion	27,914,000	27,233,000
Other noncurrent assets	38,000	38,000
Total Assets	\$462,251,000	\$469,579,000
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Current liabilities:		
Accounts payable	\$42,644,000	\$43,554,000
Accrued payroll, accrued and withheld payroll taxes	25,370,000	47,696,000
Other accrued expenses	7,253,000	8,961,000
Income taxes payable	6,179,000	—
Accrued insurance claims	18,523,000	17,748,000
Total current liabilities	99,969,000	117,959,000
Accrued insurance claims — long term portion	52,718,000	50,514,000
Deferred compensation liability	24,492,000	25,276,000
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$.01 par value; 100,000,000 shares authorized; 73,218,000 shares issued and outstanding as of March 31, 2015 and 72,878,000 shares as	732,000	729,000

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of December 31, 2014

Additional paid-in capital	192,068,000	186,022,000
Retained earnings	103,098,000	100,237,000
Accumulated other comprehensive income, net of taxes	28,000	25,000
Common stock in treasury, at cost, 1,759,000 shares as of March 31, 2015 and 1,821,000 shares as of December 31, 2014	(10,854,000	) (11,183,000
Total stockholders' equity	285,072,000	275,830,000
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$462,251,000</b>	<b>\$469,579,000</b>

See accompanying notes.

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Consolidated Statements of Comprehensive Income  
(Unaudited)

	For the Three Months Ended March 31,	
	2015	2014
Revenues	\$355,246,000	\$312,165,000
Operating costs and expenses:		
Costs of services provided	303,936,000	267,371,000
Selling, general and administrative	26,763,000	22,046,000
Other income:		
Investment and interest	507,000	381,000
Income before income taxes	25,054,000	23,129,000
Income tax provision	9,538,000	8,490,000
Net income	\$15,516,000	\$14,639,000
Per share data:		
Basic earnings per common share	\$0.22	\$0.21
Diluted earnings per common share	\$0.22	\$0.21
Weighted average number of common shares outstanding:		
Basic	71,469,000	70,321,000
Diluted	72,159,000	71,072,000
Comprehensive income:		
Net income	\$15,516,000	\$14,639,000
Other comprehensive income:		
Unrealized gain on available for sale marketable securities, net of taxes	3,000	1,000
Total comprehensive income	\$15,519,000	\$14,640,000

See accompanying notes.

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Consolidated Statements of Cash Flows  
(Unaudited)

	For the Three Months Ended March	
	31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 15,516,000	\$ 14,639,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,911,000	1,757,000
Bad debt provision	925,000	750,000
Deferred income tax benefits	525,000	3,075,000
Stock-based compensation expense	884,000	762,000
Amortization of premium on marketable securities	93,000	88,000
Unrealized gains on deferred compensation fund investments	(365,000)	) (264,000)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(11,746,000)	) (6,855,000)
Prepaid income taxes	912,000	(1,007,000)
Inventories and supplies	44,000	(309,000)
Prepaid expenses and other assets	(1,235,000)	) (2,106,000)
Deferred compensation funding	451,000	(798,000)
Accounts payable and other accrued expenses	(2,351,000)	) (469,000)
Accrued payroll, accrued and withheld payroll taxes	(21,002,000)	) 9,679,000
Accrued insurance claims	2,979,000	26,000
Deferred compensation liability	76,000	1,230,000
Income taxes payable	6,179,000	(1,878,000)
Net cash (used in) provided by operating activities	(6,204,000)	) 18,320,000
Cash flows from investing activities:		
Disposals of fixed assets	41,000	60,000
Additions to property and equipment	(1,436,000)	) (1,513,000)
Purchases of marketable securities	(989,000)	) (1,228,000)
Sales of marketable securities	846,000	939,000
Net cash used in investing activities	(1,538,000)	) (1,742,000)
Cash flows from financing activities:		
Dividends paid	(12,655,000)	) (12,077,000)
Reissuance of treasury stock pursuant to Dividend Reinvestment Plan	26,000	—
Tax benefit from equity compensation plans	499,000	477,000
Proceeds from the exercise of stock options	2,884,000	2,559,000
Net cash used in financing activities	(9,246,000)	) (9,041,000)
Net change in cash and cash equivalents	(16,988,000)	) 7,537,000
Cash and cash equivalents at beginning of the period	75,280,000	64,155,000
Cash and cash equivalents at end of the period	\$58,292,000	\$71,692,000

## Supplementary Cash Flow Information:



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Cash paid for interest	\$22,000	\$13,000
Cash paid for income taxes, net of refunds	\$1,424,000	\$7,821,000
Issuance of Common Stock in 2015 and 2014, respectively, pursuant to Employee Stock Purchase Plan	\$1,701,000	\$1,851,000

See accompanying notes.

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Consolidated Statement of Stockholders' Equity  
(Unaudited)

	For the Three Months Ended March 31, 2015						Stockholders' Equity
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income, net of taxes	Retained Earnings	Treasury Stock	
Shares	Amount						
Balance — December 31, 2014	72,878,000	\$729,000	\$186,022,000	\$25,000	\$100,237,000	\$(11,183,000)	\$275,830,000
Comprehensive income:							
Net income for the period					15,516,000		15,516,000
Unrealized gain on available for sale marketable securities, net of taxes				3,000			3,000
Comprehensive income							15,519,000
Exercise of stock options, net of shares tendered for payment	164,000	1,000	2,883,000				2,884,000
Tax benefit from equity compensation plans			499,000				499,000
Share-based compensation expense — stock options and restricted stock			777,000				777,000
Treasury shares issued for Deferred Compensation Plan funding and redemptions			443,000			48,000	491,000
Shares issued pursuant to Employee Stock Purchase Plan			1,363,000			338,000	1,701,000
Cash dividends					(12,655,000 )		(12,655,000 )
Shares issued pursuant to Dividend							

Reinvestment Plan