



July 16, 2013

Healthcare Services Group, Inc. Reports Results for the Three and Six Months Ended June 30, 2013, Provides Update on Revenue Expectations for Remainder of Year & Increases Second Quarter 2013 Cash Dividend

BENSALEM, Pa., July 16, 2013 (GLOBE NEWSWIRE) -- Healthcare Services Group, Inc. (Nasdaq:HCSG) reported that revenues for the three months ended June 30, 2013 increased over 2% to \$273,604,000 compared to \$267,108,000 for the same 2012 period. Net income for the three months ended June 30, 2013 increased over 14% to \$12,933,000 or \$0.19 per basic and per diluted common share, compared to the three months ended June 30, 2012 net income of \$11,320,000 or \$0.17 per basic and per diluted common share.

Revenues for the six months ended June 30, 2013 increased approximately 4% to \$547,508,000 compared to \$527,715,000 for the same 2012 period. Net income for the six months ended June 30, 2013 increased over 40% to \$27,887,000 or \$0.41 per basic and \$0.40 per diluted common share, compared to the six months ended June 30, 2012 net income of \$19,899,000 or \$0.30 per basic and \$0.29 per diluted common share.

In June, the Company added more facilities and revenue than any other month since 2011 and will fully reflect that organic expansion in the third quarter results. We expect to continue our accelerated facility expansion into the second half of 2013. The first quarter relationship modifications notwithstanding, we expect our revenues for the remainder of 2013 and 2014 to return to our historical long term target of double digit revenue growth. The Company also announced that yesterday it entered into an asset purchase agreement with Platinum Health Services, LLC ("Platinum") to acquire substantially all of its operating assets. Platinum is a privately-held provider of professional housekeeping, laundry and maintenance services to long-term and post-acute care facilities. We expect the transaction to add more than \$60,000,000 in annualized revenues and be accretive to future earnings per share.

Additionally, on July 9, 2013, our Board of Directors declared a quarterly cash dividend of \$0.16875 per common share, payable on September 20, 2013 to shareholders of record at the close of business on August 16, 2013. This represents the 41st consecutive quarterly cash dividend payment, as well as the 40th consecutive increase since our initiation of quarterly cash dividends in 2003.

The Company will host a conference call on Wednesday, July 17, 2013 at 8:30 a.m. Eastern Time to discuss its results for the three and six months ended June 30, 2013. The call may be accessed via phone at 800-893-5360. The call will be simultaneously webcast under the "Events & Presentations" section of the investor relations page on our website, www.hcsg.com. A replay of the webcast will also be available on our website through approximately 10:00 p.m. Eastern Time on Wednesday, July 17, 2013.

Cautionary Statement Regarding Forward-Looking Statements

This release and any schedules incorporated by reference into it 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; from having several significant clients who each individually contributed at least 3% to 5% of our total consolidated revenues for the three and six months ended June 30, 2013; risks associated with our acquisition of Platinum Health Services, LLC; 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 the risk factors described in our Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2012 in Part I thereof under "Government Regulation of Clients," "Competition" and "Service Agreements/Collections," and under Item 1A "Risk Factors". Many of our clients' revenues are highly contingent on Medicare and Medicaid reimbursement funding rates, which Congress and related agencies have affected through the enactment of a number of major laws and regulations during the past decade, including the March 2010 enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. On July 29, 2011, the United States Center for Medicare Services issued final rulings

which, among other things, reduced Medicare payments to nursing centers by 11.1% and changed the reimbursement for the provision of group rehabilitation therapy services to Medicare beneficiaries. In January 2013, the U.S. Congress enacted the American Taxpayer Relief Act of 2012, which delayed automatic spending cuts of \$1.2 trillion, including reduced Medicare payments to plans and providers up to 2%. These discretionary spending caps were originally enacted under provisions in the Budget Control Act of 2011, an initiative to reduce the federal deficit through the year 2021, also known as "sequestration." The sequestration went into effect starting March 2013. Currently, the U.S. Congress is considering further changes or revising legislation relating to health care in the United States which, among other initiatives, may impose cost containment measures impacting our clients. These laws and proposed laws and forthcoming regulations have significantly altered, or threaten to significantly alter, overall government reimbursement funding rates and mechanisms. The overall effect of these laws and trends in the long-term care industry has affected and could adversely affect the liquidity of our clients, resulting in their inability to make payments to us on agreed-upon payment terms. These factors, in addition to delays in payments from clients, 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.

Healthcare Services Group, Inc. is the largest national provider of professional housekeeping, laundry and dietary services to long-term care and related health care facilities.

HEALTHCARE SERVICES GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	\$ 273,604,000	\$ 267,108,000	\$ 547,508,000	\$ 527,715,000
Operating costs and expenses:				
Cost of services provided	234,602,000	230,206,000	469,793,000	457,701,000
Selling, general and administrative	19,363,000	18,524,000	40,153,000	39,506,000
Income from operations	19,639,000	18,378,000	37,562,000	30,508,000
Other income:				
Investment and interest	219,000	(95,000)	1,253,000	1,558,000
Income before income taxes	19,858,000	18,283,000	38,815,000	32,066,000
Income taxes	6,925,000	6,963,000	10,928,000	12,167,000
Net income	<u>\$ 12,933,000</u>	<u>\$ 11,320,000</u>	<u>\$ 27,887,000</u>	<u>\$ 19,899,000</u>
Basic earnings per common share	<u>\$ 0.19</u>	<u>\$ 0.17</u>	<u>\$ 0.41</u>	<u>\$ 0.30</u>
Diluted earnings per common share	<u>\$ 0.19</u>	<u>\$ 0.17</u>	<u>\$ 0.40</u>	<u>\$ 0.29</u>
Cash dividends per common share	<u>\$ 0.17</u>	<u>\$ 0.16</u>	<u>\$ 0.33</u>	<u>\$ 0.32</u>
Basic weighted average number of common shares outstanding	<u>68,599,000</u>	<u>67,296,000</u>	<u>68,531,000</u>	<u>67,189,000</u>
Diluted weighted average number of common shares outstanding	<u>69,370,000</u>	<u>68,228,000</u>	<u>69,366,000</u>	<u>68,155,000</u>

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Cash and cash equivalents	\$ 63,160,000	\$ 68,949,000
Marketable securities, at fair value	22,026,000	21,322,000
Accounts and notes receivable, net	165,700,000	140,218,000
Other current assets	<u>38,415,000</u>	<u>37,357,000</u>
Total current assets	289,301,000	267,846,000
Property and equipment, net	10,203,000	10,272,000
Notes receivable - long term, net	2,502,000	1,823,000
Goodwill	16,955,000	16,955,000
Other intangible assets, net	4,119,000	5,203,000
Deferred compensation funding	19,757,000	17,831,000
Other assets	<u>12,573,000</u>	<u>11,253,000</u>
Total Assets	<u>\$ 355,410,000</u>	<u>\$ 331,183,000</u>
Accrued insurance claims - current	\$ 7,110,000	\$ 6,850,000
Other current liabilities	<u>68,158,000</u>	<u>60,814,000</u>
Total current liabilities	75,268,000	67,664,000
Accrued insurance claims - long term	16,589,000	15,712,000
Deferred compensation liability	20,033,000	18,237,000
Stockholders' equity	<u>243,520,000</u>	<u>229,570,000</u>
Total Liabilities and Stockholders' Equity	<u>\$ 355,410,000</u>	<u>\$ 331,183,000</u>

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Source: Healthcare Services Group, Inc.

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