

TIMELINESS 3 Lowered 4/23/10
SAFETY 3 New 12/4/09
TECHNICAL 3 Lowered 4/30/10
BETA .70 (1.00 = Market)

2013-15 PROJECTIONS
 Price Gain Return
 High 40 (+105%) 22%
 Low 25 (+25%) 10%

Insider Decisions
 J A S O N D J F M
 to Buy 0 0 0 0 0 0 0 0 0
 Options 1 0 0 3 1 0 0 2 1
 to Sell 1 0 0 1 3 3 0 2 2

Institutional Decisions
 2Q2009 3Q2009 4Q2009
 to Buy 71 71 69
 to Sell 71 66 59
 Hlds(000) 38454 38186 38800

LEGENDS
 — 19.5 x "Cash Flow" p sh
 ... Relative Price Strength
 3-for-2 split 8/98
 3-for-2 split 3/04
 3-for-2 split 5/05
 3-for-2 split 8/07
 Options: Yes
 Shaded area: prior recession
 Latest recession began 12/07

Percent shares traded
 30
 20
 10

% TOT. RETURN 4/10
 THIS STOCK VL ARITH. INDEX
 1 yr. 25.1 63.0
 3 yr. 28.1 9.5
 5 yr. 122.3 57.4

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
3.40	3.61	3.97	4.85	5.50	6.22	6.90	7.60	8.72	9.76	11.23	11.49	12.41	13.56	13.94	17.06	17.70	19.60	Revenues per sh	27.25
.22	.16	.22	.26	.29	.21	.21	.25	.28	.33	.42	.52	.67	.77	.68	.83	.90	1.10	"Cash Flow" per sh	1.65
.16	.09	.17	.19	.23	.15	.15	.19	.22	.27	.36	.45	.59	.67	.62	.74	.88	1.00	Earnings per sh ^A	1.55
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.04	.03	.06	.05	.08	.08	.05	.05	.05	.06	.06	.05	.05	.04	.04	.05	.05	.05	Cap'l Spending per sh	.05
1.55	1.66	1.83	1.93	2.15	2.30	2.46	2.65	2.86	3.12	3.34	3.65	4.01	4.57	4.67	5.14	4.75	4.90	Book Value per sh ^B	6.05
40.18	41.22	40.96	37.40	37.24	37.34	36.92	37.38	37.69	38.89	39.41	40.59	41.22	42.60	43.23	40.60	44.00	44.00	Common Shs Outst'g ^C	44.00
14.8	23.6	11.2	12.4	12.6	18.6	10.7	11.7	16.9	16.4	21.1	26.3	25.0	29.9	29.8	25.4			Avg Ann'l P/E Ratio	21.0
.97	1.58	.70	.71	.66	1.06	.70	.60	.92	.93	1.11	1.40	1.35	1.59	1.79	1.68			Relative P/E Ratio	1.40
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CAPITAL STRUCTURE as of 3/31/10				2008	2009	3/31/10	BUSINESS: Healthcare Services Group, Inc. provides housekeeping, laundry, linen, facility maintenance, and food services to the healthcare industry, primarily in the United States. Its housekeeping services consist primarily of cleaning, disinfecting, and sanitizing patient rooms and common areas of a client's facility, as well as the laundering and processing of the personal clothing belonging to the											© VALUE LINE PUB., INC.		
Total Debt None				254.7	284.2	328.5	4.1%	4.4%	4.7%	4.7%	5.5%	6.3%	7.5%	8.1%	7.4%	6.9%	7.5%	8.0%	Revenues (\$mill)	1200
Leases, Uncapitalized Annual rentals \$0.9 mill.				2.2	2.2	2.0	38.8%	39.0%	39.5%	38.0%	38.0%	38.0%	37.5%	38.5%	38.5%	38.5%	38.0%	38.0%	Operating Margin	9.0%
No Defined Benefit Pension Plan				5.6	7.0	8.6	2.2%	2.5%	2.6%	2.9%	3.3%	4.1%	5.0%	5.1%	4.4%	4.4%	4.6%	5.1%	Depreciation (\$mill)	6.0
Pfd Stock None				74.0	83.1	94.2	6.2%	7.1%	8.0%	9.0%	11.2%	12.9%	15.4%	15.2%	13.2%	14.5%	18.0%	20.5%	Net Profit (\$mill)	73.0
Common Stock 43,777,000 shs. as of 2/15/10				90.8	98.9	107.9	6.2%	7.1%	8.0%	9.0%	11.2%	12.9%	15.4%	15.2%	13.2%	14.5%	18.0%	20.5%	Income Tax Rate	38.0%
MARKET CAP: \$875 million (Small Cap)				6.2%	7.1%	8.0%	6.2%	7.1%	8.0%	9.0%	11.2%	12.9%	15.4%	15.2%	13.2%	14.5%	18.0%	20.5%	Net Profit Margin	6.1%
CURRENT POSITION (SMILL.)				6.2%	7.1%	8.0%	--	--	--	14%	31%	42%	50%	60%	8%	NMF	106%	104%	Working Cap'l (\$mill)	265
Cash Assets				86.9	84.0	72.5													Long-Term Debt (\$mill)	Nil
Receivables				96.6	104.4	105.1													Shr. Equity (\$mill) ^B	265
Inventory (FIFO)				16.1	17.0	17.5													Return on Total Cap'l	25.5%
Other				7.0	6.8	6.3													Return on Shr. Equity	25.5%
Current Assets				206.6	212.2	201.4													Retained to Com Eq	9.0%
Accts Payable				9.3	9.1	8.1													All Div'ds to Net Prof	75%
Debt Due				--	--	--														
Other				19.7	25.6	14.9														
Current Liab.				29.0	34.7	23.0														

Cal-endar	QUARTERLY REVENUES (\$mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2007	140.7	142.4	146.1	148.5	577.7
2008	147.3	147.9	153.0	154.5	602.7
2009	160.4	170.9	178.8	182.6	692.7
2010	183.8	190	200	206.2	780
2011	205	210	220	225	860

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2007	.17	.17	.16	.17	.67
2008	.16	.16	.13	.17	.62
2009	.18	.18	.19	.15	.70
2010	.17	.20	.23	.25	.85
2011	.23	.24	.26	.27	1.00

Cal-endar	QUARTERLY DIVIDENDS PAID ^D				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2006	.07	.07	.08	.09	.31
2007	.09	.10	.11	.12	.42
2008	.13	.14	.15	.16	.58
2009	.17	.18	.19	.20	.74
2010	.21	.22			

Rising expenses took a toll on Healthcare Services Group's first-quarter 2010 earnings. Although revenue increased 15%, year to year, a concurrent rise in operating costs offset the gains. In particular, the integration of some recently acquired businesses, as well as a hike in start-up costs were the primary driver of the higher expenses. All told, share net came in at \$0.17, down a penny from the year-earlier result.

Selling costs should return to a more manageable level through the rest of 2010. Increased cross-promotion within product lines should help to bolster revenue and HCSG's operating margins. Share earnings ought to advance by over 20%, year to year, during the current year.

The company has settled its compensation dispute with the Department of Labor. Healthcare Services Group had come under fire from regulators over its practice of computing overtime pay by averaging worker hours over a two-week period, rather than on a weekly basis as required by the DOL. As a result, HCSG has decided to move all of its payroll processing functions out of each individual division into a centralized corporate office. The initiative was finished during the first quarter, and is unlikely to affect the bottom line during the remainder of the current year.

The increased outsourcing of services in the long-term care market should bolster demand for Healthcare Services Group's offerings. With many medical providers continuing to struggle from the effects of the recent recession, the appeal of farming out day-to-day housekeeping, laundry, and foodservice duties is on the increase. Furthermore, an aging populace augurs well for HSCG's bottom-line growth potential over the next 3 to 5 years. Although there is some risk of a reduction in Medicare payments hurting demand, the likelihood of the proposed cuts going through appears remote.

This issue is neutrally ranked. Recent contract gains in the long-term care sector should lead to good year-to-year share-net increases, particularly during the latter half of 2010. Furthermore, income-oriented investors will likely be interested in the favorable dividend yield.

Christopher T. Wells June 4, 2010

(A) Diluted earnings. Next earnings report due in early August.	(B) Includes intangibles: In '09, \$26.0 mill., \$.64/sh.	(C) In millions, adjusted for stock splits.	(D) Dividends historically paid early February, late April, July, October.	Company's Financial Strength	B+
				Stock's Price Stability	75
				Price Growth Persistence	100
				Earnings Predictability	90