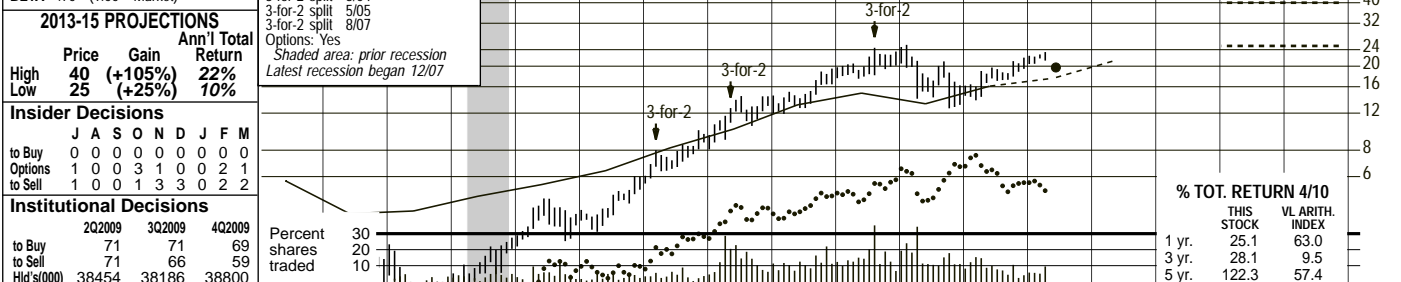


# HEALTHCARE SERV. NDQ-HCSG

RECENT PRICE **19.74** P/E RATIO **23.2** (Trailing: 28.6 Median: 22.0) RELATIVE P/E RATIO **1.50** DIV'D YLD **4.5%** **VALUE LINE**

TIMELINESS <b>3</b> Lowered 4/23/10	High: 3.6	2.9	3.1	4.7	6.0	10.0	14.5	19.5	24.4	25.3	22.0	23.3	Target Price Range
SAFETY <b>3</b> New 12/4/09	Low: 1.9	1.0	1.6	2.8	3.3	5.6	8.1	11.9	17.5	12.6	13.8	19.5	2013 2014 2015
TECHNICAL <b>3</b> Lowered 4/30/10													64
BETA .70 (1.00 = Market)													48



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	.60	.70	.85	1.00	Earnings per sh <sup>A</sup>	1.55
--	--	--	--	--	--	--	--	--	.04	.12	.20	.31	.46	.62	.74	.88	1.00	Div'ds Decl'd per sh <sup>D</sup>	1.16
.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 <sup>B</sup>	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 <sup>C</sup>	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	20.7	20.8	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	1.50	1.50	Relative P/E Ratio	1.40
--	--	--	--	--	--	--	--	--	.9%	1.5%	1.7%	2.1%	2.3%	3.5%	4.2%	4.2%	4.2%	Avg Ann'l Div'd Yield	3.6%

<b>CAPITAL STRUCTURE as of 3/31/10</b>				254.7	284.2	328.5	379.7	442.6	466.3	511.6	577.7	602.7	692.7	780	860	Revenues (\$mill)	1200
<b>Total Debt None</b>				4.1%	4.4%	4.7%	4.7%	5.5%	6.3%	7.5%	8.1%	7.4%	6.9%	7.5%	8.0%	Operating Margin	9.0%
<b>Leases, Uncapitalized</b> Annual rentals \$0.9 mill.				2.2	2.2	2.0	1.9	1.9	1.9	2.3	3.0	2.9	3.2	3.5	4.0	Depreciation (\$mill)	6.0
<b>No Defined Benefit Pension Plan</b>				5.6	7.0	8.6	10.9	14.7	19.1	25.5	29.6	26.6	30.3	36.0	44.0	Net Profit (\$mill)	73.0
<b>Pfd Stock None</b>				38.8%	39.0%	39.5%	38.0%	38.0%	38.0%	37.5%	38.5%	38.5%	38.5%	38.0%	38.0%	Income Tax Rate	38.0%
<b>Common Stock</b> 43,777,000 shs. as of 2/15/10				2.2%	2.5%	2.6%	2.9%	3.3%	4.1%	5.0%	5.1%	4.4%	4.4%	4.6%	5.1%	Net Profit Margin	6.1%
<b>MARKET CAP: \$875 million (Small Cap)</b>				74.0	83.1	94.2	113.4	125.0	142.5	140.6	167.2	177.6	177.5	180	190	Working Cap'l (\$mill)	265
<b>CURRENT POSITION</b> 2008 2009 3/31/10				--	--	--	--	--	--	--	--	--	--	Nil	Nil	Long-Term Debt (\$mill)	Nil
<b>(SMILL.)</b>				90.8	98.9	107.9	121.2	131.5	148.2	165.5	194.7	201.7	208.8	210	215	Shr. Equity (\$mill) <sup>B</sup>	265
<b>Cash Assets</b>				6.2%	7.1%	8.0%	9.0%	11.2%	12.9%	15.4%	15.2%	13.2%	14.5%	18.0%	20.5%	Return on Total Cap'l	25.5%
<b>Receivables</b>				6.2%	7.1%	8.0%	9.0%	11.2%	12.9%	15.4%	15.2%	13.2%	14.5%	18.0%	20.5%	Return on Shr. Equity	25.5%
<b>Inventory (FIFO)</b>				6.2%	7.1%	8.0%	7.7%	7.7%	7.4%	7.8%	6.1%	.8%	NMF	1.5%	2.5%	Retained to Com Eq	9.0%
<b>Other</b>				--	--	--	14%	31%	42%	50%	60%	94%	106%	104%	100%	All Div'ds to Net Prof	75%
<b>Current Assets</b>				206.6	212.2	201.4											
<b>Accts Payable</b>				9.3	9.1	8.1											
<b>Debt Due</b>				--	--	--											
<b>Other</b>				19.7	25.6	14.9											
<b>Current Liab.</b>				29.0	34.7	23.0											

<b>ANNUAL RATES</b> Past 10 Yrs. Past 5 Yrs. Est'd '07-'09 of change (per sh)				10.5%	8.5%	13.0%
<b>Revenues</b>				11.5%	17.0%	17.5%
<b>"Cash Flow"</b>				13.5%	18.5%	19.0%
<b>Earnings</b>				--	64.0%	10.5%
<b>Dividends</b>				8.5%	9.0%	6.5%
<b>Book Value</b>						

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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			

(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

© 2010, Value Line Publishing, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

To subscribe call 1-800-833-0046.

**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