

HEALTHCARE SERVICES GROUP INC

FORM 10-K (Annual Report)

Filed 3/30/1999 For Period Ending 12/31/1998

Address	2643 HUNTINGDON PIKE HUNTINGDON VALLEY, Pennsylvania 19006
Telephone	215-938-1661
CIK	0000731012
Industry	Business Services
Sector	Services
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

(X) ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1998

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from to

Commission File No. 0-12015

HEALTHCARE SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

232018365

(State or other jurisdiction of
incorporated or organization)

(IRS Employer Identification No.)

2643 Huntingdon Pike, Huntingdon Valley, Pennsylvania 19006

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (215) 938-1661 **Securities registered pursuant to Section 12(b) of the Act:**

Titles of Each Class

Name of Each Exchange
on Which Registered

NONE

Securities registered pursuant to Section 12(g) of the Act:

Shares of Common Stock (\$.01 par value)

Title of Class

Indicate by check mark whether the registrant (1) has filed all reports 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 X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

YES X NO

The aggregate market value of voting stock (Common Stock, \$.01 par value) held by non-affiliates of the Registrant as of March 19, 1999 was approximately \$103,668,347. Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: At March 19, 1999 there were outstanding 11,057,957 shares of the Registrant's Common Stock, \$.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of Form 10-K will be incorporated by reference to certain portions of a definitive proxy statement which is expected to be filed by the Registrant pursuant to Regulation 14A within 120 days after the close of its fiscal year.

PART I

References made herein to the Company or the Registrant include Healthcare Services Group, Inc. and its wholly owned subsidiary HCSG Supply, Inc., unless the context otherwise requires.

Item I. Business

(a) General Healthcare Services Group, Inc. (the "Company" or the "Registrant") provides housekeeping, laundry, linen, facility maintenance and food services to the health care industry, including nursing homes, retirement complexes, rehabilitation centers and hospitals. The Company believes that it is the largest provider of contractual housekeeping and laundry services to the long-term care industry in the United States, rendering such services to approximately 1,050 facilities in 43 states and Canada as of December 31, 1998.

(b) Not Applicable

(c) Description of Services The Company provides management, administrative and operating expertise and services to the housekeeping, laundry, linen, facility maintenance and food service departments of the health care industry. The Company's labor force is also interchangeable with respect to each of these services, with the exception of food services. The Company believes that each service it performs is similar in nature and each provides opportunity for growth.

Housekeeping services. Housekeeping services is the largest service sector of the Company. It involves cleaning, disinfecting and sanitizing resident areas in the facilities. In providing services to any given client facility, the Company typically hires and trains the hourly employees who were employed by such facility prior to the engagement of the Company. The Company normally assigns two on-site managers to each facility to supervise and train hourly personnel and to coordinate housekeeping and laundry with other facility support functions. Such management personnel also oversee the execution of a variety of quality and cost-control procedures including continuous training and employee evaluation as well as on-site testing for infection control. The on-site management team also assists the facility in complying with Federal, state and local regulations.

Laundry and linen services. Laundry and linen services is the other significant service sector of the Company. Laundry services involves laundering and processing of the residents' personal clothing. The Company provides laundry service to all of its housekeeping clients. Linen services involves providing, laundering and processing the sheets, pillow cases, blankets, towels, uniforms and assorted linen items used by the facilities. The hiring, training and supervision of laundry and linen services' hourly employees are similar to, and performed by the same management personnel as housekeeping services. Generally, at most of the facilities that utilize the Company's linen services, the equipment is either acquired and installed by the Company, or the existing laundry installations are purchased from the facility and upgraded when required. Each such installation generally requires initial capital outlays by the Company of from \$50,000 to \$250,000 depending on the size of the facility, installation and construction

cost and the amount of equipment required. The Company could incur relocation or other costs in the event of the cancellation of a linen service agreement where there was an investment by the Company in a corresponding laundry installation.

From January 1, 1996 through December 31, 1998, the Company's services were cancelled by thirty-five facilities with respect to which the Company had previously invested in a laundry installation. Laundry installations relating to agreements cancelled in 1998 and 1997 resulted in the Company receiving approximately \$57,000 and \$41,000 less, respectively than the net amount at which these assets were recorded on its balance sheet. In 1996, laundry installations, relating to clients who terminated their service agreements with the Company, were sold to the Company's clients for an amount in excess of the net amount recorded on the Company's balance sheet. Linen supplies, in some instances are owned by the Company, and the Company maintains a sufficient inventory of these items in order to ensure their availability. The Company provides linen services to approximately twenty per cent of the facilities for which it provides housekeeping services.

Facility maintenance, materials acquisition and consulting services. Facility maintenance services consist of repair and maintenance of laundry equipment, plumbing and electrical systems, as well as carpentry and painting. In many instances, materials, equipment and supplies utilized by the Company in the performance of maintenance services, as well as housekeeping, laundry and linen services, are provided by the Company through its wholly owned subsidiary, HCSG Supply, Inc.. The Company also provides consulting services to facilities to assist them in updating their housekeeping, laundry and linen operations.

Food services. The Company commenced providing food services to a limited number of clients in 1997. Food services consist of the development of a menu that meets the residents' dietary needs, purchasing and preparing the food to assure the residents receive an appetizing meal, and participation in monitoring the residents' ongoing nutrition status. On-site management is responsible for all daily food service activities, with regular support being provided by a district manager specializing in food service, as well as a registered dietitian. The Company also provides consulting services to facilities to assist them in updating and cost containment in regards a client's food service operation.

Laundry installations sales. The Company (as distributor of laundry equipment) sells laundry installations to its clients which generally represent the construction and installation of a turn-key operation. With regard to laundry installation sales, the Company generally offers payment terms, ranging from 36 to 60 months. There were no service agreement cancellations in 1998, 1997 or 1996 by clients who have purchased laundry installations from the Company. During the years 1996 through 1998, laundry installation sales were not material to the Company's operating results as the Company prefers to own such laundry installations in connection with performance of its service agreements.

Operational-Management Structure

By applying its professional management techniques, the Company is able to contain certain housekeeping, laundry, linen, facility maintenance and food service costs on a continuing basis. The Company provides its services through a network of management personnel, as illustrated below.

Vice President - Operations

Divisional Vice President (5 Divisions)

Regional Vice President/Manager (18 Regions)

District Manager (97 Districts)

Training Manager

Facility Manager and Assistant Facility Manager

Each facility is managed by an on-site Facility Manager, an Assistant Facility Manager, and if necessary, additional supervisory personnel. Districts, typically consisting of from eight to twelve facilities, are supported by a District Manager and a Training Manager. District Managers bear overall responsibility for the facilities within their districts. They are generally based within close proximity to each facility. These managers provide active support to clients in addition to the support provided by the Company's on-site management. Training Managers are responsible for the recruitment, training and development of Facility Managers. At December 31, 1998, the Company maintained 18 regions within five divisions. A division consists of two to six regions within a specific geographical area. A Divisional Vice President manages each division. Additionally, two divisions, have a Divisional Vice President-Sales who supports the Divisional Vice President by managing the marketing efforts of the respective divisions. Each region is headed by a Regional Vice President/Manager and a Regional Sales Director who assumes primary responsibility for marketing the Company's services. Regional Vice President/Managers report to Divisional Vice Presidents who in turn report to the Vice President of Operations. With respect to the Food Service division, the Divisional Vice President assumes primary responsibility for the marketing efforts of his division. Such efforts are supplemented by the

Food Service division Regional Manager, as well as the other divisions' sales and marketing personnel. The Company believes that its divisional, regional and district organizational structure facilitates its ability to obtain new clients, as well as its ability to sell new services to existing clients.

Market and Services

The market for the Company's services consists of a large number of facilities involved in various aspects of the health care industry, including, nursing homes, retirement complexes, rehabilitation centers and hospitals. Such facilities may be specialized or general, privately owned or public, profit or not-for-profit, and may serve patients on a long-term or short-term basis. The market for the Company's services is expected to continue to grow as the elderly increase as a percentage of the United States and Canadian population and as government reimbursement policies require increased cost control or containment by constituents of its targeted market.

In 1998 the long-term care market consisted of approximately 23,000 facilities, according to estimates of the Department of Health and Human Services. The facilities primarily range in size from small private facilities with 65 beds to facilities with over 500 beds. The Company markets its services primarily to facilities with 100 or more beds. The Company believes that less than five percent of long-term care facilities use outside providers of housekeeping and laundry services such as the Company.

Marketing and Sales

The Company's services are marketed at four levels of the Company's organization: at the corporate level by the Chief Executive Officer, President and the Vice President of Operations, at the divisional level by Divisional Vice Presidents and Divisional Vice Presidents- Sales; at the regional level by the Regional Vice Presidents/Managers and Regional Sales Directors; and at the district level by District Managers. The Company provides incentive compensation to its operational personnel based on achieving budgeted earnings and to its Divisional Vice Presidents- Sales and Regional Sales Directors based on achieving budgeted earnings and new business revenues.

The Company's services are marketed primarily through referrals and in-person solicitation of target facilities. The Company also utilizes direct mail campaigns and participates in industry trade shows, health care trade associations and healthcare support services seminars that are offered in conjunction with state or local health authorities in many of the states in which the Company conducts its business. The Company's programs have been approved for continuing education credits by state nursing home licensing boards in certain states, and are typically attended by facility owners, administrators and supervisory personnel, thus presenting a marketing opportunity for the Company. Indications of interest in the Company's services arising from initial marketing efforts are followed up with a presentation regarding the Company's services and survey of the service requirements of the facility. Thereafter, a formal proposal, including operational recommendations and recommendations for proposed savings, is submitted to the prospective client. Once the prospective client accepts the proposal and signs the service agreement, the Company can set up its operations on-site within days.

Government Regulation of Clients

The Company's clients are subject to governmental regulation. In August 1997, the President signed into law the Balanced Budget Act of 1997. The legislation changes Medicare and Medicaid policy in a number of ways including the phasing in of a Medicare prospective payment system ("PPS") for skilled nursing facilities effective July 1, 1998. PPS will significantly change the manner in which skilled nursing facilities are reimbursed for inpatient services provided to Medicare beneficiaries. Unlike the old system, which relied solely on cost reports submitted, PPS rates are based entirely on the federally-adjusted rate. Although there can be no assurance thereof, the Company believes that while PPS will affect how clients are paid for certain services, the Company's business should not be adversely impacted by this legislation, as clients determine how to adjust to PPS. The Company does not participate in any government reimbursement programs, therefore, all of the Company's contractual relationships with its clients continue to determine the clients' payment obligations to the Company. At this time, the Company has not been able to fully assess the impact of PPS on its clients, due in part to uncertainty as to the details of implementation by its clients.

Service Agreements

The Company offers two kinds of service agreements, a full service agreement or a management agreement. In a full service agreement, the Company assumes both management and payroll responsibility for the hourly housekeeping, laundry, linen, facility maintenance and food service employees.

The Company typically adopts and follows the client's employee wage structure, including its policy of wage rate increases, and passes through to the client any labor cost increases associated with wage rate adjustments. Under a management agreement, the Company provides management and supervisory services while the client facility retains payroll responsibility for its hourly employees. Substantially all of the Company's agreements are full service agreements. These agreements typically provide for a one year term, cancelable by either party upon 30 days' notice after the initial 90-day period. As of December 31, 1998, the Company provided services to approximately 1,050 client facilities.

Although the service agreements are cancelable on short notice, the Company has historically had a favorable client retention rate and expects to be able to continue to maintain satisfactory relationships with its clients. The risk associated with short-term agreements have not materially affected either the Company's linen services, which generally require a capital investment, or laundry installation sales, which require the Company to finance the sales price. Such risks are often mitigated by certain provisions set forth in the agreements which are entered into by the Company. In cases where the Company has purchased the laundry installation from its clients, many of the linen service agreements require that in the event the Company's services are terminated, the client becomes obligated to purchase the laundry installation from the Company at a price no less than the value recorded on the Company's financial statements at the time of termination. The laundry installation sales agreements obligate the purchaser to pay for such installation upon terms independent of the services rendered by the Company.

From time to time, the Company encounters difficulty in collecting amounts due from certain of its clients, including those in bankruptcy, those who have terminated service agreements and slow payers experiencing financial difficulties. In order to provide for these collection problems and the general risk associated with the granting of credit terms, the Company recorded bad debt provisions of \$2,339,515, \$899,551 and \$2,050,000 in the years ended December 31, 1998, 1997 and 1996, respectively. In making its evaluations, in addition to analyzing and anticipating, where possible, the specific cases described above, management considers the general collection risks associated with trends in the long-term care industry.

Competition

The Company competes primarily with the in-house support service departments of its potential clients. Most healthcare facilities perform their own support service functions without relying upon outside management firms such as the Company. In addition, a number of local firms compete with the Company in the regional markets in which the Company conducts business. Several national service firms are larger and have greater financial and marketing resources than the Company, although historically, such firms have concentrated their marketing efforts on hospitals rather than the long-term care facilities typically serviced by the Company. Although the competition to provide service to health care facilities is strong, the Company believes that it competes effectively for new agreements, as well as

renewals of the existing agreements based upon the quality and dependability of its services and the cost savings it can effect for the client.

Employees

At December 31, 1998, the Company employed 2,040 management and supervisory personnel. Of these employees, 206 held executive, regional/district management and office support positions, and 1,834 of these salaried employees were on-site management personnel. On such date, the Company employed approximately 12,006 hourly employees. Many of the Company's hourly employees were previous support employees of the Company's clients. In addition, the Company manages hourly employees who remain employed by certain of its clients.

Approximately 12% of the Company's hourly employees are unionized. These employees are subject to collective bargaining agreements that are negotiated by individual facilities and are assented to by the Company so as to bind the Company as an "employer" under the agreements. The Company may be adversely affected by relations between its client facilities and the employee unions. The Company is a party to negotiated collective bargaining agreements with respect to approximately 90 employees at five facilities. The Company believes its employee relations are satisfactory.

(d) Risk Factors - Certain matters discussed in this report may include forward-looking statements that are subject to risks and uncertainties that could cause actual results or objectives to differ materially from those projected. Such risks and uncertainties include, but are not limited to, risks arising from the Company providing its services exclusively to the health care industry and credit and collection risks associated with this industry. Additionally, the Company's operating results would be adversely effected if unexpected increases in the costs of labor, materials supplies and equipment used in performing its services could not be passed on to clients.

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

(e) Financial Information About Foreign and Domestic Operations and Export Sales Not Applicable.

Item 2. Properties

The Company leases its corporate offices, located at 2643 Huntingdon Pike, Huntingdon Valley, Pennsylvania 19006, which consists of 6,638 square feet. The term of the lease expires on March 31, 2001. The Company also leases office space at other locations in Pennsylvania, Massachusetts, Florida, Illinois, California, Colorado, Georgia, Missouri and Texas, office sizes range from approximately 1,000 to 2,500 square feet. These locations serve as divisional or regional offices. In addition, the Company leases warehouse space in Pennsylvania, Florida and Illinois. The warehouses in Pennsylvania, Florida

and Illinois consist of approximately 18,000, 10,000 and 3,500 square feet, respectively. None of these leases is for more than a five-year term.

The Company is provided with office and storage space at each of its client facilities. Management does not foresee any difficulties with regard to the continued utilization of such premises.

The Company presently owns laundry equipment, office furniture and equipment, housekeeping equipment and vehicles. Management believes that all of such equipment is sufficient for the conduct of the Company's current operations.

Item 3. Legal Proceedings.

As of December 31, 1998, there were no material pending legal proceedings to which the Company was a party, or of which any of its property was subject, other than routine litigation or claims believed to be adequately covered by insurance.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Registrant's Common Stock and Related Security Holder Matters

(a) Market Information The Company's common stock, \$.01 par value (the "Common Stock") is traded on the NASDAQ National Market System. On December 31, 1998, there were 11,034,207 shares of Common Stock outstanding.

On August 5, 1998, the Board of Directors declared a three-for-two stock split of the Company's Common Stock effected in the form of a 50% stock dividend payable on August 27, 1998 to Common Stock stockholders of record on August 17, 1998. An amount equal to the par value of the shares of Common Stock issued was transferred from additional paid in capital to Common Stock in the December 31, 1998 balance sheet. The effect of this action was to increase shares of outstanding Common Stock at August 27, 1998 by approximately 3,693,432.

The high and low bids for the Common Stock during the two years ended December 31, 1998, ranged as follows (after giving effect to the three-for-two stock split):

	1998 High -----	1998 Low -----
1st Qtr.	9 15/16	8 1/3
2nd Qtr.	9 9/16	9 1/3
3rd Qtr.	11 11/16	9 3/16
4th Qtr.	9 7/8	8 3/8
	1997 High -----	1997 Low -----
1st Qtr.	8 1/3	6 3/4
2nd Qtr.	8 1/3	6 2/3
3rd Qtr.	9 1/3	7 2/3
4th Qtr.	9 9/16	8 3/16

(b) Holders As of March 19, 1999, there were approximately 320 holders of record of the common stock, including stock held in nominee name by brokers or other nominees. It is estimated that there are approximately 2,600 beneficial holders.

(c) Dividends The Company has not paid any cash dividends on its Common Stock during the last two years. Currently, it intends to continue this policy of retaining all of its earnings, if any, to finance the development and expansion of its business.

Items 6 through 8 - Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and Financial Statements and Supplementary Data

The information called for herein is incorporated by reference to the Company's Annual Report to Shareholders for the year ended December 31, 1998.

Selected Financial Data

The selected financial data presented below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and Notes thereto.

	(In thousands except for per share data and employees)				
	Years ended December 31:				
	1998	1997	1996	1995	1994
Revenues	\$204,869	\$181,359	\$162,482	\$148,747	\$136,414
Net income	\$ 8,869	\$ 5,894	\$ 6,889	\$ 3,941	\$ 6,400
Basic earnings per common share	\$.79	\$.52	\$.57	\$.32	\$.53
Diluted earnings per common share	\$.77	\$.51	\$.56	\$.32	\$.53
Weighted average number of common shares outstanding for basic EPS	11,188	11,354	12,156	12,210	12,044
Weighted average number of common shares outstanding for diluted EPS	11,512	11,578	12,203	12,335	12,211
As of December 31:					
Working Capital	\$ 62,009	\$ 55,706	\$ 57,434	\$ 51,068	\$ 46,146
Total Assets	\$ 93,109	\$ 84,890	\$ 86,446	\$ 80,290	\$ 75,815
Long-Term Obligations	\$ -	\$ -	\$ -	\$ -	\$ 300
Stockholders' Equity	\$ 80,192	\$ 72,227	\$ 74,938	\$ 68,470	\$ 62,124
Book Value Per Share	\$ 7.27	\$ 6.52	\$ 6.17	\$ 5.61	\$ 5.22
Employees	14,046	12,180	11,217	10,911	10,808

All share data has been adjusted to reflect the 3-for-2 stock split paid in the form of a 50% stock dividend on August 27, 1998.

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto.

Management's Discussion and Analysis of Financial Condition And Results of Operations

Results of Operations

From 1993 through 1998, the Company's revenues grew at a compound annual rate of 12.4%. This growth was achieved through obtaining new clients in both existing market areas, as well as providing additional services to existing clients. Although there can be no assurance thereof, the Company anticipates future growth, although its compound growth rates will likely decrease as growth is measured against the Company's increasing revenue base.

The following table sets forth for the years indicated the percentage which certain items bear to revenues:

	Relation to Total Revenues ----- Years Ended December 31, -----		
	1998	1997	1996
Revenues	100.0%	100.0%	100.0%
Operating costs and expenses:			
Costs of services provided	85.1	85.1	85.7
Selling, general and administrative	8.5	8.8	8.0
Interest income	.6	.8	.7
Settlement of civil litigation (Note 9)	-	(1.0)	-
	---	---	---
Income before income taxes	7.0	5.9	7.0
Income taxes	2.7	2.6	2.8
	---	---	---
Net income	4.3%	3.3%	4.2%
	===	===	===

1998 Compared with 1997

Revenues increased 13% to \$204,869,023 in 1998 from \$181,359,305 in 1997. The following factors contributed to the increase in revenues: service agreements with new clients increased revenues 22.7%; new services to existing clients increased revenues 4.9%; and cancellations and other minor changes decreased revenues by 14.6%.

Costs of services provided as a percentage of revenues in 1998 was 85.1%, the same as in 1997. The primary factors affecting specific variations in the 1998 cost of services provided as a percentage of revenue are as follows: decrease in workers' compensation, general liability and other insurance of .5%; decrease of .3% in the cost of supplies consumed in performing services; decrease of .3% in employee benefits; offsetting these decreases was an increase in allowance for doubtful accounts of .6%.

Selling, general and administrative expenses as a percentage of revenue decreased to 8.5% in 1998 from 8.8% in 1997. The decrease is primarily attributable to the Company's ability to control these expenses while comparing them to a greater revenue base.

1997 Compared with 1996

Revenues increased 12% to \$181,359,305 in 1997 from \$162,482,169 in 1996. The following factors contributed to the increase in revenues: service agreements with new clients in existing geographic areas increased revenues 16.8%; new services to existing clients increased revenues 5.2%; and cancellations and other minor changes decreased revenues by 10%.

Costs of services provided as a percentage of revenues decreased to 85.1% in 1997 from 85.7% in 1996. The primary factors affecting specific variations in the 1997 cost of services provided as a percentage of revenue and their effects on the .6% decrease are as follows: decrease in allowance for doubtful accounts of .9%; decrease in workers' compensation, general liability and other insurance of .7%; offsetting these decreases was an increase of 1.2% in the cost of supplies consumed in performing services.

Selling, general and administrative expenses as a percentage of revenue increased to 8.8% in 1997 from 8.0% in 1996. The increase is primarily a result of the additional costs associated with the expansion of the Company's divisional and regional staffs, as well as the costs of installing a new computerized financial reporting system.

In the second quarter of 1997 the Company established a provision of \$1,800,000 for additional legal and related costs in connection with the settlement of a civil lawsuit which was settled in July 1997 (see Note 9 - Settlement of Civil Litigation).

Liquidity and Capital Resources

At December 31, 1998 the Company had working capital and cash of \$62,009,010 and \$17,201,408 respectively, which represents an 11% increase and 3% decrease, respectively, compared to December 31, 1997 working capital and cash of \$55,705,917 and \$17,774,219. During 1998, the Company expended \$3,496,000 for open market purchases of 369,000 shares of its common stock. The Company's current ratio at December 31, 1998 increased only slightly, to 6.8 to 1 from 6.7 to 1 at December 31, 1997.

The net cash provided by the Company's operating activities was \$3,319,704 for the year ended December 31, 1998. The principal source of cash flows from operating activities for 1998 was net income, charges to operations for bad debt provisions, depreciation and amortization, and the timing of payments for payroll and payroll related taxes. The operating activity that used the largest amount of cash was a \$10,215,917 net increase in accounts and current and long term notes receivable, as well as a \$871,915 decrease in accrued insurance claims. The net increase in accounts and current and long term notes receivable resulted primarily from the growth in the Company's revenues. The decrease in accrued insurance claims is principally due to the estimated final payment on expiring policies to the Company's insurance carrier.

The Company's principal use of cash in investing activities for the year ended December 31, 1998 was the purchase of housekeeping equipment, computer equipment and laundry equipment installations.

At December 31, 1997 the Company had working capital and cash of \$55,705,917 and \$17,774,219 respectively which represent decreases of 3% and 22% respectively, compared to December 31, 1996 working capital and cash of \$57,434,314 and \$22,677,290, respectively. The declines are primarily a result of the Company's expending approximately \$10,900,000 for open market purchases of 942,500 shares of its common stock. As a result of the stock buy-back the Company's current ratio at December 31, 1997 decreased to 6.7 to 1 from 7.6 to 1 at December 31, 1996.

The net cash provided by the Company's operating activities was \$5,364,992 for the year ended December 31, 1997. The principal source of cash flows from operating activities for 1997 was net income, depreciation and amortization, charges to operations for bad debt provisions and the timing of payments for payroll and payroll related taxes. The operating activity that used the largest amount of cash was a \$4,261,684 increase in accounts and current and long term notes receivable, as well as a \$506,560 increase in prepaid expenses and other assets. The increase in accounts and current and long term notes receivable resulted primarily from the growth in the Company's revenues. The increase in prepaid expenses and other assets primarily resulted from payments made in connection with laundry installations not complete as of December 31, 1997.

The Company's principal use of cash in investing activities for the year ended December 31, 1997 was the purchase of housekeeping equipment and laundry equipment installations.

The Company expends considerable effort to collect the amounts due for its services on the terms agreed upon with its clients. Many of the Company's clients participate in programs funded by federal and state governmental agencies which historically have encountered delays in making payments to its program participants. Whenever possible, when a client falls behind in making agreed-upon payments, the Company converts the unpaid accounts receivable to interest bearing promissory notes. The promissory notes receivable provide a means by which to further evidence the amounts owed, provide a definitive repayment plan and therefore may enhance the ultimate collectibility of the amounts due. In some instances the Company obtains a security interest in certain of the debtors' assets.

The Company encounters difficulty in collecting amounts due from certain of its clients, including those in bankruptcy, those which have terminated service agreements and slow payers experiencing financial difficulties. In order to provide for these collection problems and the general risk associated with the granting of credit terms, the Company has recorded bad debt provisions of \$2,339,515, \$899,551 and \$2,050,000 in the years ended December 31, 1998, 1997 and 1996 respectively. In making its evaluation, in addition to analyzing, and anticipating, where possible, the specific cases described above, management considers the general collection risk associated with trends in the long-term care industry.

The Company has a \$13,000,000 bank line of credit on which it may draw to meet short-term liquidity requirements in excess of internally generated cash flow, that expires on September 30, 1999. Amounts drawn under the line are payable on demand. At December 31, 1998, there were no borrowings under the line. However, at such date, the line was fully utilized as a result of contingent liabilities of the Company to the lender relating to letters of credit issued for the Company (see Note 8 of Notes to Financial Statements).

At December 31, 1998, the Company had \$17,201,408 of cash and cash equivalents, which it views as its principal measure of liquidity.

The level of capital expenditures by the Company is generally dependent on the number of new clients obtained. Such capital expenditures primarily consist of housekeeping equipment and laundry and linen equipment installations. Although the Company has no specific material commitments for capital expenditures through the end of calendar year 1999, it estimates that it will incur capital expenditures of approximately \$2,500,000 during this period in connection with housekeeping equipment and laundry and linen equipment installations in its clients' facilities, as well as hardware and software expenditures relating to the implementation of a new computerized financial reporting system. The Company believes that its cash from operations, existing balances and credit line will be adequate for the foreseeable future to satisfy the needs of its operations and to fund its continued growth. However, if the need arose, the Company would seek to obtain capital from such sources as long-term debt or equity financing.

In accordance with the Company's previously announced authorizations to purchase its outstanding common stock, the Company expended \$3,496,000 to purchase 369,000 shares of its common stock during 1998 at an average price of \$9.47 per share. The Company remains authorized to purchase 469,950 shares pursuant to previous Board of Directors action (in each case after giving effect to the 50% stock dividend described below).

The Company's Board of Director's declared a three-for-two stock split in the form of a 50% stock dividend payable August 27, 1998, to the owners of its Common Stock of record at the close of business August 17, 1998. The effect of this action was to increase shares outstanding by 3,693,432. The three-for-two stock split has been reflected in the December 31, 1998 balance sheet.

Effect of Recently Issued Accounting Pronouncements

Accounting for Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for fiscal years beginning after June, 1999. SFAS No. 133 requires all entities to recognize all derivative instruments on their balance sheet as either assets or liabilities measured at fair value. SFAS No. 133 also specifies new methods of accounting for hedging transactions, prescribes the items and transactions that may be hedged, and specifies detailed criteria to be met to qualify for hedge accounting.

Adoption of SFAS No. 133 is not expected to have a material effect on the Company's consolidated financial statements.

Other Matters - Year 2000 Compliance

The Company has implemented new operating and application software which has become operational during 1998. The Company has been notified by the software manufacturer, as well as the firm providing installation support, that the new applications have functionality for the year 2000. Therefore, the Company does not believe it will incur any material expense, beyond the new systems installation costs, with respect to year 2000 issues. Additionally, the Company utilizes an independent service bureau for the processing and payment of payroll and payroll related taxes. The Company has been notified by its payroll processing company that all of its systems will be fully compliant with year 2000 requirements. Many of the Company's clients participate in programs funded by federal and state governmental agencies which may be affected by year 2000 issues. Any failure by the Company, its outside processing company, its clients or the federal and state governmental agencies to effectively monitor, implement or improve the above referenced operational, financial, management and technical support systems could have a material adverse effect on the Company's business and consolidated results of operations.

Cautionary Statements Regarding Forward Looking Statements Certain matters discussed may include forward-looking statements that are subject to risks and uncertainties that could cause actual results or objectives to differ materially from those projected. Such risks and uncertainties include, but are not limited to, risks arising from the Company providing its services exclusively to the health care industry, primarily providers of long-term care, and credit and collection risks associated with this industry. Additionally, the Company's operating results would be adversely effected if unexpected increases in the costs of labor, materials, supplies and equipment used in performing its services could not be passed on to its clients.

In addition, the Company believes that to improve its future financial performance it 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 the various operational levels of the Company. Furthermore, the Company believes that its ability to sustain the internal development of managerial personnel is an important factor impacting future operating results in respect to successfully executing projected growth strategies.

Effects of Inflation

All of the Company's service agreements allow it to pass through to its clients increases in the cost of labor resulting from new wage agreements. The Company believes that it will be able to recover increases in costs attributable to inflation by continuing to pass through cost increases to its clients.

Consolidated Balance Sheets

Assets	December 31,	
	1998	1997
Current Assets:		
Cash and cash equivalents	\$17,201,408	\$17,774,219
Accounts and notes receivable, less allowance for doubtful accounts of \$3,449,000 in 1998 and \$3,663,000 in 1997	45,066,828	36,560,661
Prepaid income taxes	-	366,712
Inventories and supplies	7,803,437	7,339,928
Deferred income taxes (Note 4)	324,054	567,119
Prepaid expenses and other	2,318,285	2,859,133
Total current assets	72,714,012	65,467,772
Property and Equipment:		
Laundry and linen equipment installations	8,985,945	10,993,558
Housekeeping and office equipment	8,482,207	8,731,042
Autos and trucks	51,110	157,611
	17,519,262	19,882,211
Less accumulated depreciation	11,416,214	14,245,071
	6,103,048	5,637,140
COSTS IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED		
less accumulated amortization of \$1,420,284 in 1998 and \$1,312,660 in 1997 (Note 1)	1,935,193	2,042,817
DEFERRED INCOME TAXES (Note 4)	2,131,535	1,067,670
OTHER NONCURRENT ASSETS (Note 1)	10,225,439	10,674,340
	\$93,109,227	\$84,889,739
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 4,366,015	\$4,275,902
Accrued payroll, accrued and withheld payroll taxes	5,147,634	3,770,310
Other accrued expenses (Note 9)	319,333	944,501
Income taxes payable (Note 4)	283,980	-
Accrued insurance claims (Notes 1 and 10)	588,040	771,142
Total current liabilities	10,705,002	9,761,855
ACCRUED INSURANCE CLAIMS (Notes 1 and 10)	2,212,151	2,900,964

COMMITMENTS AND CONTINGENCIES (Notes 2 and 8)**STOCKHOLDERS' EQUITY: (Note 3)**

Common stock, \$.01 par value: 15,000,000 shares authorized, 11,034,207 shares issued in 1998 and

7,386,863 in 1997	110,342	73,869
Additional paid in capital	25,064,832	26,005,004
Retained earnings	55,016,900	46,148,047
Total stockholders' equity	80,192,074	72,226,920
	\$93,109,227	\$84,889,739
	=====	=====

See accompanying notes.

Consolidated Statements of Income

	Years Ended December 31,		
	1998	1997	1996
Revenues	\$204,869,023	\$181,359,305	\$162,482,169
Operating costs and expenses:			
Cost of services provided	174,431,075	154,417,984	139,178,736
Selling, general and administrative	17,447,639	15,859,083	12,967,523
Other income (expense):			
Settlement of civil litigation (Note 9)		(1,800,000)	
Interest income	1,400,544	1,412,096	1,143,162
Income before income taxes	14,390,853	10,694,334	11,479,072
Income taxes (Note 4)	5,522,000	4,800,000	4,590,000
Net income	\$ 8,868,853	\$ 5,894,334	\$ 6,889,072
Basic earnings per common share (Notes 1 and 7)	\$.79	\$.52	\$.57
Diluted earnings per common share (Notes 1 and 7)	\$.77	\$.51	\$.56

All per share data has been adjusted to reflect the 3-for-2 stock split paid in the form of a 50% stock dividend on August 27, 1998.

See accompanying notes.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	1998	1997	1996
	----	----	----
Cash flows from operating activities:			
Net Income	\$ 8,868,853	\$ 5,894,334	\$ 6,889,072
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,080,823	2,119,053	2,212,570
Bad debt provision	2,339,515	899,551	2,050,000
Deferred income taxes (benefits) (Note 4)	(820,800)	258,000	660,797
Tax benefit of stock option transactions	571,985	120,826	2,821
Changes in operating assets and liabilities:			
Accounts and notes receivable	(10,845,682)	(4,141,482)	(2,905,442)
Prepaid income taxes	366,712	(366,712)	1,466,184
Inventories and supplies	(463,509)	52,579	(192,474)
Changes to long term notes receivable	629,765	(120,202)	(786,737)
Accounts payable and other accrued expenses (Note 9)	(535,055)	303,524	(1,407,510)
Accrued payroll, accrued and withheld payroll taxes	1,377,324	816,211	641,193
Accrued insurance claims (Notes 1 and 10)	(871,915)	89,009	400,161
Income taxes payable	283,980	(53,139)	53,139
Prepaid expenses and other assets	337,708	(506,560)	(184,564)
	-----	-----	-----
Net cash provided by operating activities	3,319,704	5,364,992	8,899,210
	-----	-----	-----
Cash flows from investing activities:			
Disposals of fixed assets	400,165	212,721	251,211
Additions to property and equipment	(2,816,996)	(1,754,111)	(2,386,017)
	-----	-----	-----
Net cash used in investing activities	(2,416,831)	(1,541,390)	(2,134,806)
	-----	-----	-----
Cash flows from financing activities:			
Purchase of treasury stock	(3,496,000)	(10,923,679)	(528,975)
Proceeds from the exercise of stock options	2,020,316	2,197,006	105,975
	-----	-----	-----
Net cash used in financing activities	(1,475,684)	(8,726,673)	(423,000)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(572,811)	(4,903,071)	6,341,404
Cash and cash equivalents at beginning of the year	17,774,219	22,677,290	16,335,886
	-----	-----	-----
Cash and cash equivalents at end of the year	\$17,201,408	\$17,774,219	\$22,677,290
	=====	=====	=====

See accompanying notes.

Consolidated Statements of Stockholders' Equity

	Years Ended December 31, 1998, 1997 and 1996					Total Stockholders' Equity
	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	
Balance, December 31, 1995	8,143,063	\$ 81,431	\$35,023,468	\$33,364,641	\$ --	\$68,469,540
Net income for the year				6,889,072		6,889,072
Exercise of stock options	12,600	126	105,849			105,975
Tax benefit arising from stock transactions			2,821			2,821
Purchase of common stock for treasury (65,000 shares)					(528,975)	(528,975)
Treasury stock retired	(65,000)	(650)	(528,325)		528,975	
Balance, December 31, 1996	8,090,663	80,907	34,603,813	40,253,713	--	74,938,433
Net income for year				5,894,334		5,894,334
Exercise of stock options	238,700	2,387	2,194,619			2,197,006
Tax benefit arising from stock transactions			120,826			120,826
Purchase of common stock for treasury (942,500 shares)					(10,923,679)	(10,923,679)
Treasury stock retired	(942,500)	(9,425)	(10,914,254)		10,923,679	
Balance, December 31, 1997	7,386,863	73,869	26,005,004	46,148,047	--	2,226,920
Three-for-two stock split	3,693,432	36,934	(36,934)			
Net income for year				8,868,853		8,868,853
Exercise of stock options	322,912	3,229	2,017,087			2,020,316
Tax benefit arising from stock transactions			571,985			571,985
Purchase of common stock for treasury (369,000 shares)					(3,496,000)	(3,496,000)
Treasury stock retired	(369,000)	(3,690)	(3,492,310)		3,496,000	
Balance, December 31, 1998	11,034,207	\$110,342	\$25,064,832	\$55,016,900	\$ --	\$80,192,074

See accompanying notes.

Notes to Consolidated Financial Statements

Note 1--Summary of Significant Accounting Policies

General

The Company provides housekeeping, laundry, linen, facility maintenance and food services exclusively to the healthcare industry such as nursing homes, rehabilitation centers, retirement facilities and hospitals.

Principles of Consolidation

The consolidated financial statements include the accounts of Healthcare Services Group, Inc. and its wholly-owned subsidiary, HCSG Supply, Inc. after elimination of intercompany transactions.

Cash and cash equivalents

Cash and cash equivalents consist of short-term, highly liquid investments with a maturity of three months or less at time of purchase.

Impaired notes receivable

In the event that a promissory note receivable is impaired, it is accounted for in accordance with FAS 114 and FAS 118; that is, they are valued at the present value of expected cash flows or market value of related collateral. The Company evaluates its notes receivable for impairment quarterly and on an individual client basis. Notes receivable considered impaired are generally attributable to clients that are either in bankruptcy, have been turned over to collection attorneys or those slow payers that are experiencing severe financial difficulties.

At December 31, 1998, the Company had notes receivable aggregating \$5,300,000 that are impaired. During 1998, the Company increased its reserve against these notes by \$3,250,000 and charged the reserve \$50,000 resulting in a reserve balance at December 31, 1998 of \$4,100,000. During 1998, the average outstanding balance of these notes receivable was \$3,500,000 and no interest income was recognized.

At December 31, 1997, the Company had notes receivable aggregating \$1,600,000 that are impaired. During 1997, the Company reduced its reserve against these notes by 1,100,000 and charged the reserve \$600,000 resulting in a reserve balance at December 31, 1997, of \$900,000. During 1997, the average outstanding balance of these notes receivable was \$2,400,000 and no interest was recognized.

At December 31, 1996, the Company had notes receivable aggregating \$3,300,000 that are impaired. During 1996, the Company increased its reserve against these notes by \$1,200,000 and charged the reserve \$1,100,000 resulting in a reserve balance at December 31, 1996 of \$2,600,000. During 1996, the average outstanding balance of these notes receivable was \$3,800,000 and no interest income was recognized. The Company follows an income recognition policy on all notes receivable that does not recognize interest income until cash payments are received. This policy was established for conservative reasons, recognizing the environment of the long-term care industry, and not because such notes are impaired. The difference between income recognition on a full accrual basis and cash basis, for notes that are not considered impaired, is not material. For impaired notes, interest income is recognized on a cost recovery basis only.

Inventories and supplies

Inventories and supplies include housekeeping and laundry supplies, as well as food service provisions which are valued at the lower of cost or market. Cost is determined on a first-in, first-out (FIFO) basis. Linen supplies are included in inventory and are amortized over a 24 month period.

Property and equipment

Property and equipment are stated at cost. Additions, renewals and improvements are capitalized, while maintenance and repair costs are expensed. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in income. Depreciation is provided by the straight-line method over the following estimated useful lives: laundry and linen equipment installations -- 3 to 7 years; housekeeping equipment and office equipment -- 3 to 7 years; autos and trucks -- 3 Years.

Revenue recognition

Revenues from service agreements are recognized as services are performed. The Company (as a distributor of laundry equipment since 1981) occasionally makes sales of laundry installations to certain clients. The sales in most cases represent the construction and installation of a turn-key operation and are for payment terms ranging from 36 to 60 months. The Company's accounting policy for these sales is to recognize the gross profit over the life of the original payment terms associated with the financing of the transactions by the Company. During 1998, 1997 and 1996, laundry installation sales were not material.

Income taxes

Deferred income taxes result from temporary differences between tax and financial statement recognition of revenue and expense. These temporary differences arise primarily from differing methods used for financial and tax purposes to calculate insurance expense, certain receivable reserves, other provisions which are not currently deductible for tax purposes, and revenue recognized on laundry installation sales. Income taxes paid were approximately \$5,120,000, \$5,481,000 and \$1,936,000 during 1998, 1997 and 1996, respectively.

Earnings per common share

Basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average common shares outstanding for the period. Diluted earnings per common share reflects the weighted-average common shares outstanding and dilutive potential common shares, such as stock options. Earnings per common share has been adjusted to reflect the 3-for-2 stock split described in Note 3.

Costs in excess of fair value of net assets

Costs in excess of the fair value of net assets of businesses acquired are amortized on a straight-line basis over periods not exceeding forty years. All of the carrying value at December 31, 1998 resulted from a 1985 acquisition which is being amortized over a thirty-one year period. Amortization charged to earnings was \$107,624 per year for the years 1998, 1997 and 1996, respectively.

On an ongoing basis, management reviews the valuation and amortization of costs in excess of fair value of net assets acquired. As part of this review, the Company estimates the value and future benefits of the net income generated by the related service agreements to determine that no impairment has occurred.

Other noncurrent assets

Other noncurrent assets consist of:

	1998	1997
	-----	-----
Long-term notes receivable	\$ 9,748,210	\$10,377,975
Other	477,229	296,365
	-----	-----
	\$10,225,439	\$10,674,340
	=====	=====

Long-term notes receivable primarily represent trade receivables that were converted to notes to enhance collection efforts. Interest income is only recognized as cash payments are received. Amounts shown are net of allowance for doubtful accounts of \$2,777,580 and \$336,500 in 1998 and 1997, respectively.

Reclassification

Certain reclassifications to 1997 reported amounts have been made in the financial statements to conform to 1998 presentation.

Concentrations of Credit Risk

Statement of Financial Accounting Standards No. 105 (SFAS No. 105) requires the disclosure of significant concentrations of credit risk, regardless of the degree of such risk. Financial instruments, as defined by SFAS No. 105, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and accounts and notes receivable. At December 31, 1998 and 1997, substantially all of the Company's cash and cash equivalents were invested with one financial institution. The Company's clients are concentrated in the health care industry, primarily providers of long-term care. The clients are comprised of many companies with a wide geographical dispersion within the United States. However, recent industry trends indicate consolidation of nursing home ownership into chains, which can lead to a client concentration. At December 31, 1998, no single client or nursing home chain accounted for more than 10% of total revenue.

Fair Value of Financial Instruments

The carrying value of financial instruments (principally consisting of cash and cash equivalents, accounts and notes receivable and accounts payable) approximate fair value.

Use of Estimates in Financial Statements

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2--Lease Commitments

The Company leases office facilities and autos under operating leases expiring on various dates through 2003 (see Note 5). The following is a schedule, by calendar years, of future minimum lease payments under operating leases having remaining terms in excess of one year as of December 31, 1998:

Year	Operating Leases

1999	\$480,011
2000	331,464
2001	110,426
2002	44,325
2003	23,590

Total minimum lease payments	\$989,816
	=====

Total expense for all operating leases was \$861,245, \$813,719 and \$698,041 for the years ended December 31, 1998, 1997 and 1996, respectively.

Note 3--Stockholders' Equity

On August 5, 1998, the Board of Directors declared a three-for-two stock split of the Company's Common Stock effected in the form of a 50% stock dividend payable on August 27, 1998 to Common Stock stockholders of record on August 17, 1998. An amount equal to the par value of the shares of Common Stock issued was transferred from additional paid in capital to common stock in the December 31, 1998 balance sheet. All stock options, share and per share disclosures have been adjusted to reflect the 3-for-2 stock split.

As of December 31, 1998, 1,127,354 shares of common stock were reserved under the incentive stock option plans, including 331,999 shares which were available for future grant. The Stock Option Committee is responsible for determining the individuals who will be granted options, the number of options each individual will receive, the option price per share, and the exercise period of each option. The incentive stock option price will not be less than the fair market value of the common stock on the date the option is granted. No option will have a term in excess of ten years and are exercisable commencing six months from the option date. As to any stockholder who owns 10% or more of the common stock, the option price per share will be no less than 110% of the fair market value of the common stock on the date the options are granted and such options shall not have a term in excess of five years.

On December 6, 1996, the Stock Option Committee extended to December 18, 2001 the expiration date of 139,200 Incentive Stock Options which were due to expire on December 18, 1996. Such options were extended at their original grant price which was greater than the fair market value on the date of the extension.

As of December 31, 1998, options outstanding, under the Incentive Stock Option Plans, for 626,186 shares were exercisable at prices ranging from \$5.56 to \$9.90, and the weighted average remaining contractual life was 5.1 years. The weighted average fair value of incentive options granted during 1998, 1997 and 1996 was \$3.74, \$1.17 and \$1.73, respectively.

A summary of incentive stock option activity is as follows:

	Incentive Stock Options					
	1998		1997		1996	
	Average Price	Number of Shares	Average Price	Number of Shares	Average Price	Number of Shares
Beginning of period	\$7.11	914,076	\$6.78	928,818	\$7.09	764,474
Granted	8.43	169,169	7.72	197,696	6.25	237,620
Cancelled	5.70	(17,326)	6.68	(23,738)	8.50	(66,376)
Exercised	6.48	(270,564)	6.20	(188,700)	5.65	(6,900)
End of period	\$7.63	795,355	\$7.11	914,076	\$6.78	928,818
Exercisable at end of period	=====	626,186	=====	716,380	=====	732,846

The Company has granted non-qualified stock options primarily to employees and directors under either the Company's 1995 Incentive and Non-Qualified Stock Option Plan for key employees and the Company's 1996 Non-Employee Director's Stock Option Plan. Amendments to the 1995 Plan, as well as the 1996 Plan were adopted on March 6, 1996 and approved by shareholders on June 4, 1996. Pursuant to the terms of the 1996 Non-Employee Director's Stock Option Plan, each eligible non-employee director receives an automatic grant based on a prescribed formula on the fixed annual grant date. The non-qualified options were granted at option prices which were not less than the fair market value of the common stock on the date the options were granted. The options are exercisable over a five to ten year period, commencing six months from the option date.

As of December 31, 1998, non-qualified options outstanding, under the above mentioned plans, for 426,540 shares were exercisable at prices ranging from \$5.67 to \$9.21, and the weighted average remaining contractual life was 4.3 years. The weighted average fair value of non-qualified options granted during 1998, 1997 and 1996 was \$5.53, \$4.97 and \$1.68, respectively.

A summary of non-qualified stock option activity is as follows:

	Non Qualified Stock Options					
	1998		1997		1996	
	Average Price	Number of Shares	Average Price	Number of Shares	Average Price	Number of Shares
Beginning of period	\$6.84	495,525	\$6.47	581,391	\$6.48	476,180
Granted	8.60	52,156	7.89	89,484	6.30	117,211
Cancelled	-	-	-	-	-	-
Exercised	6.19	(68,985)	6.13	(175,350)	5.58	(12,000)
End of period	\$7.13	478,696	\$6.84	495,525	\$6.47	581,391
Exercisable at end of period	=====	426,540	=====	406,041	=====	491,533

The Company applies APB Opinion 25 in measuring stock compensation. Accordingly, no compensation cost has been recorded for options granted to employees or directors in the years ended December 31, 1998, 1997 and 1996. The fair value of each option granted has been estimated on the grant date using the Black-Scholes Option Valuation Model. The following assumptions were made in estimating fair value:

	1998	1997	1996
Risk-Free Interest-Rate	4.53% and 4.94%	5.69% and 6.54%	5.83%
Expected Life	5 and 10 years	1 and 10 years	2 years
Expected Volatility	42.0% and 49.3%	32.0% and 49.5%	42.2%

Had compensation cost been determined under fasb Statement No. 123, net income and earnings per share would have been reduced as follows:

	(in thousands) Year Ended December 31,		
	1998	1997	1996
	----	----	----
Net Income			
As reported	\$8,869	\$5,894	\$6,889
Pro forma	\$8,682	\$5,174	\$6,516
Basic Earnings Per Common Share			
As reported	\$.79	\$.52	\$.57
Pro forma	\$.78	\$.46	\$.54
Diluted Earnings Per Common Share			
As reported	\$.77	\$.51	\$.56
Pro forma	\$.75	\$.45	\$.53

Note 4--Income Taxes

The provision for income taxes consists of:

	Year Ended December 31,		
	1998	1997	1996
	----	----	----
Current:			
Federal	\$4,789,900	\$3,361,900	\$2,923,800
State	1,552,900	1,180,100	1,005,400
	-----	-----	-----
	6,342,800	4,542,000	3,929,200
	-----	-----	-----
Deferred:			
Federal	(631,700)	194,500	498,000
State	(189,100)	63,500	162,800
	-----	-----	-----
	(820,800)	258,000	660,800
	-----	-----	-----
Tax Provision	\$5,522,000	\$4,800,000	\$4,590,000
	=====	=====	=====

Under FAS 109, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Significant components of the Company's federal and state deferred tax assets and liabilities are as follows:

	Year Ended December 31,	
	1998	1997
	----	----
Net current deferred assets:		
Allowance for doubtful accounts	\$1,431,335	\$1,487,424
Accrued insurance claims- current	244,037	313,084
Expensing of housekeeping supplies	(1,351,318)	(1,233,389)
	-----	-----
	\$ 324,054	\$ 567,119
	=====	=====
Net noncurrent deferred tax assets:		
Deferred profit on laundry installation sales	\$ 188,063	\$ 182,719
Non-deductible reserves	1,722,076	479,126
Depreciation of property and equipment	(715,594)	(901,975)
Accrued insurance claims- noncurrent	918,043	1,177,791
Other	18,947	130,009
	-----	-----
	\$2,131,535	\$1,067,670
	=====	=====

A reconciliation of the provision for income taxes and the amount computed by applying the statutory federal income tax rate (34%) to income before income taxes is as follows:

	Year Ended December 31,		
	1998	1997	1996
	----	----	----
Tax expense computed at statutory rate	\$4,892,900	\$3,636,100	\$3,902,900
Increases (decreases) resulting from:			
State income taxes, net of federal tax benefit	900,100	820,700	771,000
Tax exempt interest	(400)	(268,800)	(222,100)
Nondeductible reserves		416,500	
Amortization of costs in excess of fair value of net assets acquired	36,600	37,100	36,600
Other, net	(307,200)	158,400	101,600
	-----	-----	-----
	\$5,522,000	\$4,800,000	\$4,590,000
	=====	=====	=====

Note 5--Related Party Transactions

The Company leases its corporate offices from a partnership in which the chief executive officer of the Company is a general partner. The rental payments made during the years ended December 31, 1998, 1997 and 1996 were \$88,617 per year. The Company made no leasehold improvements in 1998, 1997 or 1996. A director of the Company has an ownership interest in several client facilities which have entered into service agreements with the Company.

During the years ended December 31, 1998, 1997 and 1996 the agreements with the client facilities which the director has an ownership interest resulted in Company revenues of approximately \$2,931,000, \$2,957,000 and \$2,838,704 respectively.

Note 6--Segment Information

The Company provides housekeeping, laundry, linen, facility maintenance and food services to the healthcare industry. The Company considers its business to consist of one reportable operating segment, based on the service business categories, provided to a client facility, sharing similar economic characteristics in the nature of the service provided, method of delivering service and client base. Although the Company does provide services in Canada, essentially all of its revenue and net income, approximately 99%, are earned in one geographic area, the United States.

The Company earned revenue in the following service business categories:

	Year Ended December 31,		
	1998	1997	1996
	----	----	----
Housekeeping services	\$134,727,000	\$127,255,000	\$120,687,000
Laundry & linen services	53,066,000	43,372,000	39,955,000
Food services	13,374,000	8,085,000	-
Maintenance services & other	3,702,000	2,647,000	1,840,000
	-----	-----	-----
	\$204,869,000	\$181,359,000	\$162,482,000
	=====	=====	=====

Note 7--Earnings Per Common Share

A reconciliation of the numerator and denominators of basic and diluted earnings per common share (after giving effect to the August 27, 1998 three-for-two stock split) is as follows:

Year Ended December 31, 1998			
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Net Income	\$8,868,853		
Basic earnings per common share	8,868,853	11,187,615	\$.79
Effect of dilutive securities:			
Options		324,582	
	-----	-----	-----
Diluted earnings per common share	\$8,868,853	11,512,197	\$.77
	=====	=====	=====

Year Ended December 31, 1997			
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Net Income	\$5,894,334		
Basic earnings per common share	5,894,334	11,353,602	\$.52
Effect of dilutive securities:			
Options		224,538	
	-----	-----	-----
Diluted earnings per common share	\$5,894,334	11,578,140	\$.51
	=====	=====	=====

Year Ended December 31, 1996			
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Net Income	\$6,889,072		
Basic earnings per common share	6,889,072	12,155,572	\$.57
Effect of dilutive securities:			
Options		47,678	
	-----	-----	-----
Diluted earnings per common share	\$6,889,072	12,203,250	\$.56
	=====	=====	=====

Options to purchase 27,215, 321,450 and 659,700 shares of common stock at an average exercise price of \$9.78, \$8.39 and \$7.72 for the years ended December 31, 1998, 1997 and 1996, respectively were outstanding during such years but not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market value of the common shares.

Note 8--Other Contingencies

The Company has a \$13,000,000 bank line of credit under which it may draw to meet short-term liquidity requirements or for other purposes, that expires on September 30, 1999. Amounts drawn under the line are payable upon demand. At both December 31, 1998 and 1997, there were no borrowings under the line. At December 31, 1998 and 1997, the Company had outstanding approximately \$13,000,000 and \$11,200,000, respectively of irrevocable standby letters of credit, which primarily relate to payment obligations under the Company's insurance program. As a result of letters of credit issued, the amount available under the line was reduced by approximately \$13,000,000 and \$11,200,000 at December 31, 1998 and December 31, 1997, respectively.

The Company is also involved in miscellaneous claims and litigation arising in the ordinary course of business. The Company believes that these matters, taken individually or in the aggregate, would not have a material adverse impact on the Company's financial position or results of operations.

Note 9--Settlement of Civil Litigation

On July 24, 1997 the Company and the U.S. Attorney for the Eastern District of Pennsylvania reached a settlement of the civil litigation commenced by the United States Attorney on or about May 24, 1996. This litigation was a result of and arose from (1) payments made by the Company for supplies which were allegedly furnished to clients of the Company and the actions of the Company after the payments were made and (2) payments made to certain clients of the Company in connection with the purchase of laundry installations from those clients. All claims described in the complaint were settled through the payment in July, 1997 of \$1,225,000 to the United States government. The Company and its officers denied all allegations, and all allegations against the Company and its officers were dismissed with prejudice. The monetary impact of this settlement plus estimated related legal costs of \$575,000, amounting to approximately \$1,800,000 was accrued at June 30, 1997 and reduced the net income for the year ended December 31, 1997 by \$1,577,000 or \$.14 per basic common share and \$.13 per diluted common share (after effect of the August 27, 1998 three-for-two stock split). The Company has not recorded an income tax benefit in the accompanying financial statements for the settlement payment of \$1,225,000 and therefore the effective tax rate of 44.9% for the year ended December 31, 1997 is in excess of the statutory rate.

Note 10--Accrued Insurance Claims

For years 1996 through 1998, the Company has a Paid Loss Retrospective Insurance Plan for general liability and workers' compensation insurance. Under these plans, pre-determined loss limits are arranged with an insurance company to limit both the Company's per occurrence cash outlay and annual insurance plan cost.

For workers' compensation, the Company records a reserve based on the present value of future payments, including an estimate of claims incurred but not reported, that are developed as a result of a review of the Company's historical data and actuarial analysis done by an independent company. The accrued insurance claims were reduced by approximately \$2,200,000, \$2,353,000 and \$2,956,000 at December 31, 1998, 1997 and 1996, respectively in order to record the estimated present value at the end of each year using an 8% interest factor. For general liability insurance, the Company records a reserve for the estimated ultimate amounts to be paid for known claims.

Market Makers

As of the end of 1998, the following firms were making a market in the shares of Healthcare Services Group, Inc.:

- Salomon Smith Barney Inc.
- C. L. King & Associates
- Prudential Securities, Inc.
- Troster Singer Corp.
- Wedbush Morgan Securities, Inc.
- Mayer & Schweitzer Inc.
- Herzog, Heine, Geduld, Inc.

About Your Shares

Healthcare Services Group, Inc.'s common stock is traded on the NASDAQ National Market System of the over-the-counter market. On December 31, 1998 there was 11,034,207 of the Company's common shares issued and outstanding. As of March 1, 1999 there were approximately 320 holders of record of the common stock, including holders whose stock was held in nominee name by brokers or other nominees. It is estimated that there are approximately 2,600 beneficial holders.

Price quotations (after giving effect to the August 27, 1998 three-for-two stock split) during the two years ended December 31, 1998, ranged as follows:

	1998 High	1998 Low
	-----	-----
1st Qtr.	9 15/16	8 1/3
2nd Qtr.	9 9/16	9 1/3
3rd Qtr.	11 11/16	8 3/16
4th Qtr.	9 7/8	8 3/8
	1997 High	1997 Low
	-----	-----
1st Qtr.	8 1/3	6 3/4
2nd Qtr.	8 1/3	6 2/3
3rd Qtr.	9 1/3	7 2/3
4th Qtr.	9 9/16	8 3/16

Report Of Independent Certified Public Accountants

The Stockholders and Board of Directors
Healthcare Services Group, Inc.

We have audited the accompanying consolidated balance sheets of Healthcare Services Group, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Healthcare Services Group, Inc. at December 31, 1998 and 1997 and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Parsippany, New Jersey
February 17, 1999

Transfer Agent
American Stock Transfer & Trust Co.
99 Wall St.
New York, NY 10005

Corporate Counsel
Olshan Grundman Frome
Rosenzweig & Wolosky LLP
505 Park Ave.
New York, NY 10022

Stock Listing
Listed on the NASDAQ
National Market System Symbol - "HCSG"

Auditors
Grant Thornton LLP
9 Campus Drive
Parsippany, NJ 07054

Corporate Offices
Healthcare Services Group, Inc.
2643 Huntingdon Pike
Huntingdon Valley, PA 19006
215-938-1661

Annual Stockholders' Meeting
Date - May 18, 1999
Time - 10:00 A.M.
Place - The Radisson Hotel of Bucks County
2400 Old Lincoln Highway
Trevose, PA 19047

Officers and Corporate Management

Daniel P. McCartney
Chief Executive Officer

Thomas A. Cook
President & Chief Operating Officer

Alan L. Crowell
Vice President - Food Service Division

James L. DiStefano
Chief Financial Officer and Treasurer

Michael Harder
Vice President - Credit Administration

Richard W. Hudson
Vice President - Finance and Secretary

John D. Kelly
Western Divisional Vice President

Nicholas R. Marino
Human Resources Director

Michael E. McBryan
Mid-Atlantic Divisional Vice President - Sales

Bryan D. McCartney
Mid-Atlantic Divisional Vice President

Joseph F. McCartney
Northeastern Divisional Vice President

James P. O'Toole
Mid-Atlantic Regional Vice President

Brian M. Waters
Vice President - Operations

Michael L. Wyse
Western Divisional Vice President - Sales

Directors

Daniel P. McCartney
Chairman & Chief Executive Officer

Thomas A. Cook
President & Chief Operating Officer

Joseph F. McCartney
Northeastern Divisional Vice President

Barton D. Weisman
President & CEO-H.B.A. Corp.

W. Thacher Longstreth
Vice Chairman - Packard Press

Robert L. Frome, Esq.
Senior Partner - Olshan Grundman Frome
Rosenzweig & Wolosky LLP

Robert J. Moss, Esq.
Executive Director - Alzheimer's Association of
South Central Pennsylvania

John M. Briggs, CPA
Partner - Briggs, Bunting & Dougherty LLP

Availability of Form 10-K

A copy of Healthcare Services Group, Inc.'s 1998 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be provided without charge to each shareholder making a written request to the Investor Relations Department of the Company at its Corporate Offices.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

Not Applicable

PART III

Item 10. Directors and Executive Officers of the Registrant

The information regarding Directors and executive officers is incorporated herein by reference to the Company's definitive proxy statement to be mailed to its shareholders in connection with its 1999 Annual Shareholders' Meeting and to be filed within 120 days of the close of the year ended December 31, 1998.

Directors holding approximately 13.7% of the outstanding voting stock of the Registrant have been deemed to be "affiliates" solely for the purpose of calculating the aggregate market value of the voting stock held by non-affiliates set forth on the cover page of this Report.

Item 11. Executive Compensation

The Information regarding executive compensation is incorporated herein by reference to the Company's proxy statement to be mailed to shareholders in connection with its 1999 Annual Shareholders Meeting and to be filed within 120 days of the close of the fiscal year ended December 31, 1998.

Item 13. Certain Relationships and Related Transactions

The information regarding certain relationship and related transactions is incorporated herein by reference to the Company's proxy statement mailed to shareholders in connection with its 1999 Annual Shareholders Meeting and to be filed within 120 days of the close of the fiscal year ended December 31, 1998.

PART IV

Item 14. Exhibits, Financial Statements Schedules and Reports on Form 8-K

(a) 1. Financial Statements The documents shown below are contained in the Company's Annual Report to Shareholders for 1998 and are incorporated herein by reference.

Report of Independent Certified Public Accountants. Balance Sheets as of December 31, 1998 and 1997.

Statements of Income for the three years ended December 31, 1998, 1997 and 1996.

Statements of Stockholders Equity for the three years ended December 31, 1998, 1997 and 1996.

Statements of Cash Flows for the three years ended December 31, 1998, 1997 and 1996.

Notes to Financial Statements.

2. Financial Statement Schedules Included in Part IV of this report:

Consent of Independent Certified Public Accountants. Report of Independent Certified Public Accountants.

Schedule II - Valuation and Qualifying Accounts for the three years ended December 31, 1998, 1997 and 1996. Financial Data Schedule.

All other schedules are omitted since they are not required, not applicable or the information has been included in the Financial Statements or notes thereto.

3. Exhibits

The following Exhibits are filed as part of this Report
(references are to Reg. S-K Exhibit Numbers):

Exhibit Number -----	Title -----
3.1	Articles of Incorporation of the Registrant, as amended, are incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-2 (File No. 33-35798).
3.2	Amended By-Laws of the Registrant as of July 18, 1990, are incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-2 (File No. 33-35798).
4.	Specimen Certificate of the Common Stock, \$.01 par value, of the Registrant is incorporated by reference to Exhibit 4.1 of Registrant's Registration Statement on Form S-18 (Commission File No. 2-87625-W).
10.1	Incentive Stock Option Plan adopted on August 31, 1983, amended and readopted on April 30, 1991 is incorporated by reference to Exhibit 10.1 of Registrant's Registration Statement on Form S-18 (Commission File No. 2-87625-W), as well as by reference to the Company's definitive proxy statement dated April 30, 1991.
10.2	1995 Incentive and Non-Qualified Stock Option Plan, as amended (incorporated by reference to Exhibit 4(d) of the Form S-8 filed by the Registrant on July 31, 1996).
10.3	1996 Non-Employee Directors' Stock Option Plan, Amended and Restated as of October 28, 1997 (incorporated by reference to Exhibit 10.6 of Form 10-Q Report filed by Registrant on November 14, 1997)
10.4	1995 Non-Qualified Stock Option Plan for Directors (incorporated by reference to the Company's Definitive Proxy Statement dated April 21, 1995.)
10.5	Form of Non-Qualified Stock Option Agreement granted to certain Directors is incorporated by reference to Exhibit 10.9 of Registrant's Registration Statement on Form S-1 (Commission File No. 2-98089).
23.	Consent of Independent Certified Public Accountants
27.	Financial Data Schedule
(b)	Reports on Form 8-K None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 26, 1999 HEALTHCARE SERVICES GROUP, INC.

(Registrant)

By: /s/ Daniel P. McCartney

 Daniel P. McCartney
 Chief Executive Officer and
 Chairman of the Board

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons and in the capacities and on the date indicated:

Signature -----	Title -----	Date ----
/s/ Daniel P. McCartney ----- Daniel P. McCartney	Chief Executive Officer and Chairman	March 26, 1999
/s/ Joseph F. McCartney ----- Joseph F. McCartney	Director and Vice President	March 26, 1999
/s/ Thacher Longstreth ----- Thacher Longstreth	Director	March 26, 1999
/s/ Barton D. Weisman ----- Barton D. Weisman	Director	March 26, 1999
/s/ Robert L. Frome ----- Robert L. Frome	Director	March 26, 1999
/s/ Thomas A. Cook ----- Thomas A. Cook	Director and President	March 26, 1999
/s/ John M. Briggs ----- John M. Briggs	Director	March 26, 1999
/s/ Robert J. Moss ----- Robert J. Moss	Director	March 26, 1999
/s/ James L. DiStefano ----- James L. DiStefano	Chief Financial Officer and Treasurer	March 26, 1999
/s/ Richard W. Hudson ----- Richard W. Hudson	Vice President-Finance and Secretary	March 26, 1999

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated February 17, 1999, accompanying the consolidated financial statements included in the Annual Report of Healthcare Services Group, Inc. on Form 10-K for the year ended December 31, 1998.

We hereby consent to the incorporation by reference in Post-Effective Amendment No. 1 to the Registration Statements (Forms S-8 No. 2-95092 and No.2-99215) and in the Registration Statement (Form S-8 No.33-35915) pertaining to the Incentive Stock Option Plan and the Non-Qualified Stock Option Plan of Healthcare Services Group, Inc. and in the related prospectuses of our report dated February 17, 1999.

*/s/ Grant Thornton, LLP
Parsippany, New Jersey*

March 15, 1999

**REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS ON SCHEDULE**

Board of Directors and Stockholders
Healthcare Services Group, Inc.

In connection with our audit of the consolidated financial statements of Healthcare Services Group, Inc., referred to in our report dated February 17, 1999, which is included in the 1998 Annual Report to Shareholders and is incorporated by reference in this Form 10-K, we have also audited Schedule II for each of the three years in the period ended December 31, 1998. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

*/s/ Grant Thornton, LLP
Parsippany, New Jersey
February 17, 1999*

Healthcare Services Group, Inc. Schedule II - Valuation and Qualifying Accounts Years Ended December 31, 1998, 1997, and 1996

Description -----	Balance- Beginning of Period -----	Additions -----		Deductions (B) ---	Balance- End of Period -----
		Charged to Costs and Expenses -----	Charged to Other Accounts(A) -----		
1998 ----					
Allowance for Doubtful Accounts	\$3,663,000 =====	\$2,339,515 =====	=====	\$2,553,515 =====	\$3,449,000 =====
Allowance for Doubtful Accounts- Long-term Notes	\$ 336,500 =====	=====	\$2,441,080 =====	=====	\$2,777,580 =====
1997 ----					
Allowance for Doubtful Accounts	\$3,812,000 =====	\$ 899,551 =====	=====	\$1,048,551 =====	\$3,663,000 =====
Allowance for Doubtful Accounts- Long-term Notes	\$ 350,000 =====	=====	=====	\$ 13,500 =====	\$ 336,500 =====
1996 ----					
Allowance for Doubtful Accounts	\$4,468,000 =====	\$2,050,000 =====	=====	\$2,706,000 =====	\$3,812,000 =====
Allowance for Doubtful Accounts- Long-term Notes	\$ 549,400 =====	=====	=====	\$ 199,400 =====	\$ 350,000 =====

(A) Represents reclassifications from allowance for doubtful accounts and other accounts

(B) Represents write-offs and reclassifications to allowance for doubtful

accounts- long term notes

ARTICLE 5

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD END	DEC 31 1998
CASH	17,201,408
SECURITIES	0
RECEIVABLES	48,515,828
ALLOWANCES	3,449,000
INVENTORY	7,803,437
CURRENT ASSETS	72,714,012
PP&E	17,519,262
DEPRECIATION	11,416,214
TOTAL ASSETS	93,109,227
CURRENT LIABILITIES	10,705,002
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	110,342
OTHER SE	80,081,732
TOTAL LIABILITY AND EQUITY	93,109,227
SALES	0
TOTAL REVENUES	204,869,023
CGS	0
TOTAL COSTS	191,878,714
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	14,390,853
INCOME TAX	5,522,000
INCOME CONTINUING	8,868,853
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	8,868,853
EPS PRIMARY	.79
EPS DILUTED	.77

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