HEALTHCARE SERVICES GROUP INC

FORM 10-K
(Annual Report)

Filed 3/21/2001 For Period Ending 12/31/2000

Address	2643 HUNTINGDON PIKE
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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, 2000
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.)

3220 Tillman Drive, Suite 300, Bensalem, PA 19020
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (215) 639-4274

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 12, 2001 was approximately $54,262,000. Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: At March 12, 2001 there were outstanding 10,899,091 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 subsidiaries HCSG Supply, Inc. and Huntingdon Holdings, 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 over 1,100 facilities in 42 states and Canada as of December 31, 2000.

(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. At some of the facilities that utilize the Company's linen service, the Company has installed its own equipment. Such installation generally requires an initial capital outlay by the Company of from $50,000 to $250,000 depending on the size of the facility, installation and construction costs, 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. The hiring, training and supervision of laundry and linen services' hourly employees are similar to, and performed by the same management personnel who perform housekeeping services.

From January 1, 1998 through December 31, 2000 the Company's services were cancelled by 75 facilities with respect to which the Company had previously invested in a laundry installation. Laundry installations relating to agreements cancelled in 1998 resulted in the Company receiving approximately $57,000 less than the net amount at which these assets were recorded on its balance sheet. In the years ended December 31, 1999 and 2000, respectively laundry installations, relating to clients who service agreements with the Company were terminated, 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.

Maintenance and other services . 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 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' on-going 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 with respect to 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. The Company generally offers payment terms, ranging from 36 to 60 months. There were no service agreement cancellations in 2000, 1999 or 1998 by clients who have purchased laundry installations from the Company. During the years 1998 through 2000, 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 generally able to containor control 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.

President

Vice President - Operations

Divisional Vice President
(4 Divisions)

Regional Vice President/Manager
(24 Regions)

District Manager
(112 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, 2000, the Company maintained 24 regions within four divisions. A division consists of a number of regions within a specific geographical area. A Divisional Vice President manages each division. Each region is headed by a Regional Vice President/Manager, as well as some regions having 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 President or Vice President of Operations. 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 additional services to existing clients.

Market

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 population and as government reimbursement policies require increased cost control or containment by constituents of its targeted market.

In 2000 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; 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 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 changed Medicare 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 has significantly changed the manner and the amounts 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 federal-acuity-adjusted rate. Although PPS directly affects how clients are paid for certain services, the Company itself 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. However, certain clients have been adversely affected by PPS, as well as other trends in the long-term care industry resulting in certain clients filing voluntary bankruptcy petitions. Others may follow (see " Liquidity and Capital Resources"). The awareness that PPS has had, and continues to have a negative effect on the long-term care industry's financial position has been recognized by Congress. In 1999, Congress passed the Balanced Budget Refinement Act of 1999 ("BBRA") which restored $2.7 billion in funding for skilled nursing facilities and mandated a 20 percent adjustment in 15 selected Resource Utilization Groups ("RUGs"). RUGs is the classification system used under PPS to evaluate patients in connection with Medicare reimbursement payments. In July 2000, HFCA extended the BBRA adjustments through 2001 (they were to expire in October 2000). Additionally, other measures have been introduced recently by legislatures to close the gap between the current system's presumptions and the actual cost of providing care.

Service Agreements/Collection

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 or 90 days' notice after the initial 90-day period. As of December 31, 2000, the Company provided services to approximately 1,100 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.

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 (in an Allowance for Doubtful Accounts) of $3,250,000, $7,250,314 and $2,339,515 in the years ended December 31, 2000, 1999 and 1998, 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, 2000, the Company employed approximately 2,453 management and supervisory personnel. Of these employees, 258 held executive, regional/district management and office support positions, and 2,195 of these salaried employees were on-site management personnel. On such date, the Company employed approximately 13,823 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 10% 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 a negotiated collective bargaining agreement with a limited number of employees at a few facilities serviced by the Company. 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, primarily providers of long-term care; credit and collection risks associated with this industry; the effects of changes in regulations governing the industry and risk factors described in Part I hereof under "Government Regulation of Clients", "Competition" and "Service Agreements/Collection". The Company's clients have been adversely affected by the change in Medicare payments under the Prospective Payment System ("PPS") enacted in 1997, as well as other trends in the long-term care industry resulting in certain of the Company's clients filing voluntary bankruptcy petitions. Others may follow. These factors, in addition to delays in payments from clients has resulted in and could result in additional bad debts in the near future. The Company's operating results would also be adversely affected 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 and provide additional 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 3220 Tillman Drive, Suite 300, Bensalem , Pennsylvania 19020, which consists of 16,195 square feet. The term of the lease expires on September 30, 2005. The Company also leases office space at other locations in Pennsylvania, Connecticut, Florida, Illinois, California, Colorado, Georgia and Texas. The 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 and Florida. The warehouses in Pennsylvania and Florida consist of approximately 18,000 and 6,000 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, 2000, there were no material pending legal proceedings to which the Company was a party, or as to 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, 2000, there were 10,939,091 shares of Common Stock outstanding.

The high and low bids for the Common Stock during the two years ended December 31, 2000, ranged as follows:

	2000 High	2000 Low
1st Qtr.	9.688	5.000
2nd Qtr.	5.438	3.719
3rd Qtr.	5.500	4.531
4th Qtr.	6.375	4.750
	1999 High	**1999 Low**
1st Qtr.	11.500	9.125
2nd Qtr.	10.625	8.750
3rd Qtr.	9.875	7.875
4th Qtr.	8.500	6.625

(b) Holders

As of March 12, 2001, there were approximately 434 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, 2000, copies of which accompany this Report.

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:				
	2000	1999	1998	1997	1996
Revenues	$254,668	$232,432	$204,869	$181,359	$162,482
Net income	$ 5,588	$ 5,536	$ 8,869	$ 5,894	$ 6,889
Basic earnings per common share	$ .51	$ .50	$ .79	$ .52	$ .57
Diluted earnings per common share	$ .51	$ .49	$ .77	$ .51	$ .56
Weighted average number of common shares outstanding for basic EPS	10,964	11,053	11,188	11,354	12,156
Weighted average number of common shares outstanding for diluted EPS	10,983	11,286	11,512	11,578	12,203
As of December 31:					
Working Capital	$ 73,995	$69,785	$ 62,009	$ 55,706	$57,434
Total Assets	$108,343	$98,030	$ 93,109	$ 84,890	$86,446
Stockholders' Equity	$ 90,805	$85,961	$ 80,192	$ 72,227	$74,938
Book Value Per Share	$ 8.21	$ 7.77	$ 7.27	$ 6.52	$ 6.17
Employees	16,276	15,741	14,046	12,180	11,217

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.

Contents

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 1995 through 2000, the Company's revenues grew at a compound annual rate of 11.4%. 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,		
	2000	1999	1998
Revenues	100.0%	100.0%	100.0%
Operating costs and expenses:			
Costs of services provided	89.1	88.5	85.1
Selling, general and administrative	7.7	8.1	8.5
Interest income	.4	.4	.6
Income before income taxes	3.6	3.8	7.0
Income taxes	1.4	1.4	2.7
Net income	2.2%	2.4%	4.3%

2000 Compared with 1999

Revenues increased 9.6% to $254,668,213 in 2000 from $232,431,888 in 1999 resulting primarily from new service agreements entered into with new clients.

Costs of services provided as a percentage of revenues in 2000 increased to 89.1% from 88.5% in 1999. The primary factors affecting specific variations in the 2000 cost of services provided as a percentage of revenues and their effect on the .6% increase are as follows: an increase of 1.3% in the cost of supplies consumed in performing services; an increase of .7% in labor costs; an increase of .3% in employee benefits; offsetting these increases was a decrease of 1.8% in bad debt provision.

Selling, general and administrative expenses as a percentage of revenue decreased to 7.7% in 2000 from 8.1% in 1999. The decrease is primarily attributable to the Company's ability to control these expenses while comparing them to a greater revenue base.

As a result of the matters discussed above, 2000 net income decreased to 2.2% as a percentage of revenue compared to 2.4% in 1999.

1999 Compared with 1998

Revenues increased 13.5% to $232,431,888 in 1999 from $204,869,023 in 1998. The following factors contributed to the increase in revenues: service agreements with new clients increased revenues 30.4%; new services to existing clients increased revenues 2.5%; and cancellations and other minor changes decreased revenues by 19.4%.

Costs of services provided as a percentage of revenues in 1999 increased to 88.5% from 85.1% in 1998. The primary factors affecting specific variations in the 1999 cost of services provided as a percentage of revenues and their effect on the 3.4% increase are as follows: an increase of 2.0% in bad debt provision; increase of 1.6% in labor costs; increase of .4% in workers' compensation insurance; offsetting these increases was a decrease of .8% in the cost of supplies consumed in performing services.

Selling, general and administrative expenses as a percentage of revenue decreased to 8.1% in 1999 from 8.5% in 1998. The decrease is primarily attributable to the Company's ability to control these expenses while comparing them to a greater revenue base.

Income taxes as a percentage of revenue decreased in 1999 as a result of the Internal Revenue Service concluding an examination of the company's 1996 and 1997 returns. Therefore, previously established reserves are no longer required. Accordingly, the effective tax rate for 1999 has been reduced to reflect the reversal of these reserves.

Interest income in 1999 decreased to .4% as a percentage of revenue as compared to .6% in the 1998 twelve month period principally due to the Company's shift from investing excess funds in taxable securities to tax exempt securities, as well as lower average cash balances.

As a result of the matters discussed above, 1999 net income decreased to 2.4% as a percentage of revenue compared to 4.3% in 1998.

Liquidity and Capital Resources

At December 31, 2000 the Company had working capital and cash of $73,995,108 and $22,841,618 respectively, which represent increases of 6% and 33%, respectively in working capital and cash as compared to December 31, 1999 working capital and cash of $69,784,823 and $17,198,687. During 2000, the Company expended $761,875 for open market purchases of 127,500 shares of its common stock. The Company's current ratio at December 31, 2000 decreased to 6.2 to 1 from 8.7 to 1 at December 31, 1999.

The net cash provided by the Company's operating activities was $7,750,533 for the year ended December 31, 2000. The principal source of cash flows from operating activities for 2000 was net income, charges to operations for bad debt provisions, depreciation and amortization, as well as increases in accounts payable and other accrued expenses, and accrued payroll and accrued and withheld payroll taxes. The operating activity that used the largest amount of cash was an $8,485,627 net increase in accounts and notes receivable and long-term notes receivable. The net increase in accounts and current and long term notes receivable resulted primarily from the growth in the Company's revenues. The increase in accounts payable and other accrued expenses, and accrued payroll and accrued and withheld payroll taxes are principally due to the timing of the respective payments.

The Company's principal use of cash in investing activities for the year ended December 31, 2000 was the purchase of housekeeping equipment, computer software and equipment and laundry equipment installations.

At December 31, 1999 the Company had working capital and cash of $69,784,823 and $17,198,687 respectively, which represents a 13% increase in working capital and slight decrease in cash compared to December 31, 1998 working capital and cash of $62,009,010 and $17,201,408. During 1999, the Company expended $183,750 for open market purchases of 21,000 shares of its common stock. The Company's current ratio at December 31, 1999 increased, to 8.7 to 1 from 6.8 to 1 at December 31, 1998.

The net cash provided by the Company's operating activities was $1,645,549 for the year ended December 31, 1999. The principal source of cash flows from operating activities for 1999 was net income, charges to operations for bad debt provisions and depreciation and amortization. The operating activity that used the largest amount of cash was an $11,344,617 net increase in accounts and notes receivable and long-term notes receivable, as well as a $1,795,361 decrease in accounts payable and other accrued expenses. 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 accounts payable and other accrued expenses is principally due to the timing of payments to vendors.

The Company's principal use of cash in investing activities for the year ended December 31, 1999 was the purchase of housekeeping equipment, computer software and 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. Additionally, legislation enacted in August 1997 changed Medicare policy in a number of ways, most notably the phasing in, effective July 1, 1998 of a Medicare Prospective Payment System ("PPS") for skilled nursing facilities which significantly changed the manner and amount of reimbursements they receive. The Company's clients have been adversely effected by PPS, as well as other trends in the long-term care industry resulting in certain of the Company's clients filing voluntary bankruptcy protection. Others may follow. These factors, in addition to delays in payments from clients has resulted in and could result in additional bad debts in the near future. 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 and provide a definitive repayment plan and therefore may ultimately enhance the Company's ability to collect the amounts due. In some instances the Company obtains a security interest in certain of the debtors' assets. Additionally, the Company considers restructuring service agreements from full service to management-only service in the case of certain clients experiencing financial difficulties. The Company believes that such restructuring provides it with a means to maintain a relationship with the client while at the same time minimizing collection exposure.

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 $3,250,000, $7,250,314 and $2,339,515 in the years ended December 31, 2000, 1999 and 1998, 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 an $18,000,000 bank line of credit on which it may draw to meet short-term liquidity requirements in excess of internally generated cash flow. This facility expires on September 30, 2001. Amounts drawn under the line are payable on demand. At December 31, 2000, there were no borrowings under the line. However, at such date, the Company had outstanding approximately $13,000,000 of irrevocable standby letters of credit, which relate to payment obligations under the Company's insurance program. As a result of the letters of credit issued, the amount available under the line was reduced by approximately $13,000,000 at December 31, 2000.

At December 31, 2000, the Company had $22,841,618 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 2001, it estimates that it will incur capital expenditures of approximately $2,000,000 during this period in connection with housekeeping equipment and laundry and linen equipment installations in its clients' facilities, as well as expenditures relating to internal data processing hardware and software requirements. 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 $761,875 to purchase 127,500 shares of its common stock during 2000 at an average price of $5.98 per common share. The Company remains authorized to purchase 321,450 shares pursuant to previous Board of Directors action.

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; credit and collection risks associated with this industry; the effects of changes in regulations governing the industry and risk factors described in the Company's Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2000 in Part I thereof under "Government Regulations of Clients", "Competition" and "Service Agreements/Collections". The Company's clients have been adversely effected by the change in Medicare payments under the 1997 enactment of the Prospective Payment System ("PPS"), as well as other trends in the long-term care industry resulting in certain of the Company's clients filing voluntary bankruptcy petitions. Others may follow. These factors, in addition to delays in payments from clients has resulted in and could result in additional bad debts in the near future. Additionally, the Company's operating results would be adversely affected if unexpected increases in labor and labor related costs, 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 and 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

	December 31, 2000	December 31, 1999
Assets		
Current Assets:		
Cash and cash equivalents	$ 22,841,618	$17,198,687
Accounts and notes receivable, less allowance for doubtful accounts of $4,914,000 in 2000 and $7,278,000 in 1999	52,744,352	48,612,738
Prepaid income taxes	1,128,624	843,889
Inventories and supplies	8,383,963	8,580,181
Deferred income taxes	839,103	1,777,536
Prepaid expenses and other	2,184,141	1,869,091
Total current assets	88,121,801	78,882,122
Property and Equipment:		
Laundry and linen equipment installations	7,303,508	7,824,038
Housekeeping and office equipment	9,696,825	9,012,178
Autos and trucks	21,329	51,110
	17,021,662	16,887,326
Less accumulated depreciation	11,863,635	10,990,792
	5,158,027	5,896,534
COSTS IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED less accumulated amortization of $1,635,531 in 2000 and $1,527,908 in 1999	1,719,946	1,827,569
DEFERRED INCOME TAXES	1,366,186	628,553
OTHER NONCURRENT ASSETS	11,976,905	10,795,104
	$108,342,865	$98,029,882
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 4,829,183	$ 2,472,021
Accrued payroll, accrued and withheld payroll taxes	8,209,344	5,417,367
Other accrued expenses	181,466	417,966
Accrued insurance claims	906,699	789,945
Total current liabilities	14,126,692	9,097,299
ACCRUED INSURANCE CLAIMS	3,410,916	2,971,697
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value: 30,000,000 shares authorized in 2000 and 15,000,000 authorized in 1999, 11,066,591 shares issued in 2000 and 11,064,107 in 1999	110,666	110,641
Additional paid in capital	25,315,753	25,297,284
Retained earnings	66,140,713	60,552,961
Common stock in treasury, at cost 127,500 shares in 2000	(761,875)	
Total stockholders' equity	90,805,257	85,960,886
	$108,342,865	$98,029,882

See accompanying notes.

Consolidated Statements of Income

	Years Ended December 31,		
	2000	1999	1998
Revenues	$254,668,213	$232,431,888	$204,869,023
Operating costs and expenses:			
Cost of services provided	226,899,572	205,686,044	174,431,075
Selling, general and administrative	19,618,789	18,778,786	17,447,639
Other income:			
Interest income	988,900	756,003	1,400,544
Income before income taxes	9,138,752	8,723,061	14,390,853
Income taxes	3,551,000	3,187,000	5,522,000
Net income	$ 5,587,752	$ 5,536,061	$ 8,868,853
Basic earnings per common share	$ .51	$ .50	$ .79
Diluted earnings per common share	$ .51	$ .49	$ .77

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, 2000	1999	1998
Cash flows from operating activities:			
Net Income	$ 5,587,752	$ 5,536,061	$ 8,868,853
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,210,157	2,149,735	2,080,823
Bad debt provision	3,250,000	7,250,314	2,339,515
Deferred income taxes (benefits)	200,800	49,500	(820,800)
Tax benefit of stock option transactions	192	45,427	571,985
Changes in operating assets and liabilities:			
Accounts and notes receivable	(7,381,614)	(10,796,225)	(10,845,682)
Prepaid income taxes	(284,735)	(843,889)	366,712
Inventories and supplies	196,218	(776,745)	(463,509)
Long-term notes receivable	(1,104,013)	(548,392)	629,765
Accounts payable and other accrued expenses	2,120,662	(1,795,361)	(535,055)
Accrued payroll, accrued and withheld payroll taxes	2,791,977	269,733	1,377,324
Accrued insurance claims	555,973	961,451	(871,915)
Income taxes payable		(283,980)	283,980
Prepaid expenses and other assets	(392,836)	427,920	337,708
Net cash provided by operating activities	7,750,533	1,645,549	3,319,704
Cash flows from investing activities:			
Disposals of fixed assets	439,848	1,049,008	400,165
Additions to property and equipment	(1,803,877)	(2,884,602)	(2,816,996)
Net cash used in investing activities	(1,364,029)	(1,835,594)	(2,416,831)
Cash flows from financing activities:			
Purchase of treasury stock	(761,875)	(183,750)	(3,496,000)
Proceeds from the exercise of stock options	18,302	371,074	2,020,316
Net cash provided by (used in) financing activities	(743,573)	187,324	(1,475,684)
Net Increase (decrease) in cash and cash equivalents	5,642,931	(2,721)	(572,811)
Cash and cash equivalents at beginning of the year	17,198,687	17,201,408	17,774,219
Cash and cash equivalents at end of the year	$22,841,618	$17,198,687	$17,201,408

See accompanying notes.

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2000, 1999 and 1998

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1997	7,386,863	$73,869	$26,005,004	$46,148,047	$ --	$72,226,920
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
Net income for year				5,536,061		5,536,061
Exercise of stock options	50,900	509	370,565			371,074
Tax benefit arising from stock transactions			45,427			45,427
Purchase of common stock for treasury (21,000 shares)					(183,750)	(183,750)
Treasury stock retired	(21,000)	(210)	(183,540)		183,750	
Balance, December 31, 1999	11,064,141	110,641	25,297,284	60,552,961	--	85,960,886
Net income for year				5,587,752		5,587,752
Exercise of stock options	2,450	25	18,277			18,302
Tax benefit arising from stock transactions			192			192
Purchase of common stock for treasury (127,500 shares)					(761,875)	(761,875)
Balance, December 31, 2000	11,066,591	$110,666	$25,315,753	$66,140,713	(761,875)	$90,805,257

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, primarily to nursing homes, rehabilitation centers, retirement facilities and hospitals principally located in the United States.

Principles of Consolidation
The consolidated financial statements include the accounts of Healthcare Services Group, Inc. and its wholly-owned subsidiaries, HCSG Supply Inc. and Huntingdon Holdings, Inc. after elimination of intercompany transactions and balances.

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, 2000, the Company had notes receivable aggregating approximately $8,000,000 that are impaired. During 2000, the Company increased its reserve against these notes by $3,400,000 and charged the reserve $4,200,000 for write-offs resulting in a reserve balance at December 31, 2000 of $1,800,000. During 2000, the average outstanding balance of these notes receivable was $8,100,000 and no interest income was recognized.

At December 31, 1999, the Company had notes receivable aggregating $8,200,000 that are impaired. During 1999, the Company increased its reserve against these notes by $2,900,000 and charged the reserve $4,400,000 for write-offs resulting in a reserve balance at December 31, 1999 of $2,600,000. During 1999, the average outstanding balance of these notes receivable was $6,800,000 and no interest income was recognized.

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 for write-offs 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.

The Company follows an income recognition policy on 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 expended. 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 2000, 1999 and 1998, 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 $3,345,000, $4,169,000 and $5,120,000 during 2000, 1999 and 1998, 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 1998 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, 2000 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 2000, 1999 and 1998, 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 expected cash flows generated by the related service agreements to determine that no impairment has occurred.

Other noncurrent assets
Other noncurrent assets consist of:

	2000	1999
Long-term notes receivable	$11,400,615	$10,296,602
Deferred compensation funding	349,384	--
Other	226,906	498,502
	$11,976,905	$10,795,104

Long-term notes receivable primarily represent trade receivables that were converted to notes to enhance collection efforts.

Reclassification
Certain reclassifications to prior periods reported amounts have been made in the financial statements to conform to 2000 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, 2000 and 1999, 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. Legislation enacted in August 1997 changed Medicare policy in a number of ways, most notably the phasing in, effective July 1, 1998, of a Medicare Prospective Payment System ("PPS") for skilled nursing facilities which significantly changed the manner and the amounts of reimbursement they receive. The Company's clients have been adversely effected by PPS, as well as other trends in the long-term care industry resulting in certain of the Company's clients filing voluntary bankruptcy petitions. Others may follow. These factors, in addition to delays in payments from clients has resulted in and could result in additional bad debts in the near future. The clients are comprised of many companies with a wide geographical dispersion within the United States. At December 31, 2000, no single client or nursing home chain accounted for more than 10% of total revenue.

Fair Value of Financial Instruments
The carrying value of cash and cash equivalents are assumed to be at fair value because of the liquidity of the instruments. Accounts and notes receivable and accounts payable are assumed to be at fair value because of the short term maturity of the portfolio.

Use of Estimates in Financial Statements In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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, equipment and autos under operating leases expiring on various dates through 2006 and certain office leases contain renewal options (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, 2000:

Year	Operating Leases
2001	$ 777,274
2002	543,485
2003	488,290
2004	352,312
2005 and thereafter	254,839
Total minimum lease payments	$2,416,199

Total expense for all operating leases was $832,211, $635,951 and $861,245 for the years ended December 31, 2000, 1999 and 1998, 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, 2000, 1,331,504 shares of common stock were reserved under the incentive stock option plans, including 236,766 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.

As of December 31, 2000, options outstanding, under the Incentive Stock Option Plans, for 880,759 shares were exercisable at prices ranging from $5.67 to $9.90, and the weighted average remaining contractual life was 6.0 years. The weighted average fair value of incentive options granted during 2000, 1999 and 1998 was $2.15, $3.02 and $3.74, respectively.

A summary of incentive stock option activity is as follows:

	Incentive Stock Options					
	2000		1999		1998	
	Average Price	Number of Shares	Average Price	Number of Shares	Average Price	Number of Shares
Beginning of period	$7.43	959,418	$7.63	795,355	$7.11	914,076
Granted	5.11	213,979	6.86	325,350	8.43	169,169
Cancelled	6.40	(76,209)	7.25	(117,887)	5.70	(17,326)
Exercised	7.47	(2,450)	7.24	(43,400)	6.48	(270,564)
End of period	$7.05	1,094,738	$7.43	959,418	$7.63	795,355
Exercisable at end of period	$7.52	880,759	$7.72	634,086	$7.42	626,186

The Company has granted non-qualified stock options primarily to officer-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, 2000, non-qualified options outstanding, under the above mentioned plans, for 363,477 shares were exercisable at prices ranging from $5.67 to $9.21, and the weighted average remaining contractual life was 4.1 years. The weighted average fair value of non-qualified options granted during 2000, 1999 and 1998 was $3.04, $4.03 and $5.53, respectively.

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

	Non Qualified Stock Options					
	2000		1999		1998	
	Average Price	Number of Shares	Average Price	Number of Shares	Average Price	Number of Shares
Beginning of period	$7.00	428,331	$7.13	478,696	$6.84	495,525
Granted	5.16	37,246	6.75	24,950	8.60	52,156
Cancelled	$6.04	(64,854)	7.78	(67,815)	--	--
Exercised	--	--	7.58	(7,500)	6.19	(68,985)
End of period	$6.98	400,723	$7.00	428,331	$7.13	478,696
Exercisable at end of period	$7.17	363,477	$7.01	403,381	$6.95	426,540

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, 2000, 1999 and 1998. 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:

	2000	1999	1998
Risk-Free Interest-Rate	5.37% and 5.49%	6.44% and 6.68%	4.53% and 4.94%
Expected Life	5 and 10 years	5 and 10 years	5 and 10 years
Expected Volatility	39.0% and 38.7%	34.0% and 36.0%	42.0% and 49.3%

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

	(in thousands except per share data) Year Ended December 31,		
	2000	1999	1998
Net Income			
As reported	$5,588	$5,536	$8,869
Pro forma	$4,558	$4,763	$8,682
Basic Earnings Per Common Share			
As reported	$ .51	$ .50	$ .79
Pro forma	$ .42	$ .43	$ .78
Diluted Earnings Per Common Share			
As reported	$ .51	$ .49	$ .77
Pro forma	$ .41	$ .42	$ .75

Note 4--Income Taxes

The provision for income taxes consists of:

	Year Ended December 31, 2000	1999	1998
Current:			
Federal	$2,507,800	$2,449,700	$4,789,900
State	842,400	687,800	1,552,900
	3,350,200	3,137,500	6,342,800
Deferred:			
Federal	155,400	500	(631,700)
State	45,400	49,000	(189,100)
	200,800	49,500	(820,800)
Tax Provision	$3,551,000	$3,187,000	$5,522,000

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, 2000	1999
Net current deferred tax assets:		
Allowance for doubtful accounts	$1,960,686	$2,903,922
Accrued insurance claims - current	361,773	315,188
Expensing of housekeeping supplies	(1,496,333)	(1,449,280)
Other	12,977	7,706
	$ 839,103	$1,777,536
Net noncurrent deferred tax assets:		
Deferred profit on laundry installation sales	$ 27,273	$ 76,803
Non-deductible reserves	426,306	95,600
Depreciation of property and equipment	(646,639)	(742,268)
Accrued insurance claims- noncurrent	1,360,955	1,185,707
Deferred compensation	180,475	--
Other	17,816	12,711
	$1,366,186	$ 628,553

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,		
	2000	1999	1998
Tax expense computed at statutory rate	$3,107,200	$2,965,800	$4,892,900
Increases (decreases) resulting from:			
State income taxes, net of federal tax benefit	586,000	486,300	900,100
Settlement of prior years' income tax examination	--	(328,100)	--
Tax exempt interest	(97,500)	(91,900)	(400)
Amortization of costs in excess of fair value of net assets acquired	36,600	36,600	36,600
Other, net	(81,300)	118,300	(307,200)
	$3,551,000	$3,187,000	$5,522,000

In June, 1999, the Internal Revenue Service concluded its examination of the tax years ended December 31, 1997 and 1996. As a result, previously established reserves are no longer required. The effective rate for 1999 was reduced to reflect the reversal of these reserves.

Note 5--Related Party Transactions

The Company, through September, 1999, leased 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, 1999 and 1998 were $66,463 and $88,617, respectively.

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, 2000, 1999 and 1998 the agreements with the client facilities which the director has an ownership interest resulted in Company revenues of approximately $3,265,000, $3,033,000 and $2,931,000, 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,		
	2000	1999	1998
Housekeeping services	$161,840,927	$150,343,572	$134,727,421
Laundry & linen services	68,285,181	67,013,585	53,065,926
Food services	21,602,962	12,113,838	13,373,320
Maintenance services & other	2,939,143	2,960,893	3,702,356
	$254,668,213	$232,431,888	$204,869,023

Note 7--Earnings Per Common Share

A reconciliation of the numerator and denominators of basic and diluted earnings per common share is as follows:

	Year Ended December 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Net Income	$5,587,752		
Basic earnings per common share	$5,587,752	10,963,937	$ .51
Effect of dilutive securities: Options		19,028	
Diluted earnings per common share	$5,587,752	10,982,965	$ .51

	Year Ended December 31, 1999		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Net Income	$5,536,061		
Basic earnings per common share	$5,536,061	11,052,728	$ .50
Effect of dilutive securities: Options		232,864	
Diluted earnings per common share	$5,536,061	11,285,592	$ .49

	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

Options to purchase 1,176,288, 151,284 and 27,215 shares of common stock at an average exercise price of $7.57, $9.38 and $9.78 for the years ended December 31, 2000, 1999 and 1998, 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-- Contingencies

The Company has an $18,000,000 bank line of credit under which it may draw to meet short-term liquidity requirements or for other purposes, that expires on September 30, 2001. Amounts drawn under the line are payable upon demand. At both December 31, 2000 and 1999, there were no borrowings under the line. However, at such dates, the Company had outstanding approximately $13,000,000 of irrevocable standby letters of credit, which relates 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 at both December 31, 2000 and 1999.

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.

Legislation enacted in August 1997 changed Medicare policy in a number of ways, most notably the phasing in, effective July 1, 1998, of a Medicare Prospective Payment System ("PPS") for skilled nursing facilities which significantly changed the manner and the amounts of reimbursement they receive. The Company's clients have been adversely affected by PPS, as well as other trends in the long-term care industry resulting in certain of the Company's clients filing bankruptcy. Others may follow. These factors, in addition to delays in payments from clients has resulted in and could result in additional bad debts in the near future.

Note 9--Accrued Insurance Claims

For years 1998 through 2000, 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 worker's 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 $2,975,000, $2,763,000 and $2,200,000 at December 31, 2000, 1999 and 1998, 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.

Note 10--Employee Benefit Plans

Employee Stock Purchase Plan

Effective January 1, 2000, the Company initiated a non-compensatory Employee Stock Purchase Plan ("the ESPP") for all eligible employees. All full-time and certain part-time employees who have completed two years of continuous service with the Company are eligible to participate. The implementation of the ESPP is by four annual offerings with the first annual Offering Commencing on January 1, 2000. The remaining three annual offerings likewise commence on the respective year's first calendar day. Under the ESPP, the Company is authorized to issue up to 800,000 shares of its common stock to its employees. Furthermore, under the terms of the ESPP, eligible employees can choose each year to have up to $25,000 of their annual earnings withheld to purchase the Company's Common Stock. The purchase price of the stock is 85% of the lower of its beginning or end of the plan year market price. As a result of the 2000 annual offering, a total of 38,753 shares of the company's common stock were purchased at $5.42 per common share under the ESPP. Such shares were issued on January 6, 2001.

Retirement Savings Plan

On October 1, 1999, the Company established a retirement savings plan for non-highly compensated employees ("the RSP") under Section 401 (k) of the Internal Revenue Code. The RSP allows eligible employees to contribute up to fifteen percent (15%) of their compensation on a pre-tax basis. There is no match by the Company.

Deferred Compensation Plan

Effective January 1, 2000, the Company initiated a Supplemental Executive Retirement Plan ("the SERP") for certain key executives and employees. The SERP is not qualified under section 401 of the Internal Revenue Code. Under the SERP, participants may defer up to fifteen percent (15%) of their income on a pre-tax basis. As of the last day of each plan year, each participant will receive a twenty-five percent (25%) match of their deferral in the Company's common stock based on the then current market value. SERP participants fully vest in the Company's match three years from the last day of the initial year of participation. The income deferred and the Company match are unsecured and subject to the claims of general creditors of the Company. The amount expensed under the SERP during the year ended December 31, 2000 was approximately $34,000, which was funded through the reissuance to the SERP's trustee of 15,822 common shares of the Company's treasury stock. The SERP's trust account had a balance of approximately $349,000 at December 31, 2000. The Account's investments are recorded at their fair value which is based on quoted market prices. Accordingly, the Company recorded unrealized losses of approximately $54,000 on such investments during 2000. The trust account is included in other noncurrent assets in the accompanying balance sheets.

Note 11--1999 Fourth Quarter Adjustments - Unaudited

During the fourth quarter of 1999, the Company increased its allowance for doubtful accounts by approximately $5,000,000 as a result of financial difficulties incurred by its client base arising from changes in Medicare payments enacted under the "Prospective Pay System", and other industry trends, including recent bankruptcy petitions filed by some national clients. The Company assesses the adequacy of its allowance on a quarterly basis by analyzing its receivables on a client-by-client basis, with particular emphasis on those in bankruptcy, slow payers experiencing financial difficulty and terminated accounts.

During the fourth quarter of 1999, the Company increased its accrued workers' compensation insurance claims liability by approximately $1,200,000 as a result of an approximately 30% increase in the number of claims incurred during the quarter, as compared to previous 1999 quarters, as well as an approximately 20% increase in the amount paid per claim incurred.

Note 12--Selected Quarterly Financial Data (Unaudited)

	(in thousands except for per share data) Three Months Ended			
	March 31	June 30	July 31	December 31
2000				
Revenues	$60,127	$63,850	$65,211	$65,480
Operating costs and expenses	$57,880	$61,219	$62,513	$64,906
Income before income taxes	$ 2,461	$ 2,854	$ 2,963	$ 861
Net income	$ 1,501	$ 1,754	$ 1,808	$ 525
Basic earnings per common share	$ .14	$ .16	$ .17	$ .05
Diluted earnings per common share	$ .14	$ .16	$ .17	$ .05
1999				
Revenues	$55,622	$56,883	$59,620	$60,307
Operating costs and expenses	$51,704	$53,337	$55,891	$63,533
Income (loss) before income taxes	$ 4,116	$ 3,756	$ 3,905	($ 3,054)
Net income (loss)	$ 2,429	$ 2,437	$ 2,436	$(1,766)
Basic earnings (loss) per common share	$ .22	$ .22	$ .22	$ (.16)
Diluted earnings (loss) per common share	$ .21	$ .22	$ .22	$ (.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, 2000 and 1999, and the related consolidated statements of income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2000. 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999 and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

New York, New York
February 14, 2001

Market Makers

As of the end of 2000, the following firms were making a market in the shares of Healthcare Services Group, Inc.:

Salomon Smith Barney Inc.
Spears, Leeds & Kellogg
Knight Securities L.P.
C.L. King & Associates
Herzog, Heine, Geduld, Inc.
Wedbush Morgan Securities, Inc.
Robetti & Co., 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, 2000 there were 10,939,091 of the Company's common shares issued and outstanding. As of March 8, 2001 there were approximately 494 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 during the two years ended December 31, 2000, ranged as follows:

	2000 High	2000 Low
1st Qtr.	9.688	5.000
2nd Qtr.	5.438	3.719
3rd Qtr.	5.500	4.531
4th Qtr.	6.375	4.750

	1999 High	1999 Low
1st Qtr.	11.500	9.125
2nd Qtr.	10.625	8.750
3rd Qtr.	9.875	7.875
4th Qtr.	8.500	6.625

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

Independent Certified Public Accountants
Grant Thornton LLP
The Chrysler Center
666 Third Avenue
New York, NY 10017

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

Corporate Offices
Healthcare Services Group, Inc.
3220 Tillman Drive, Suite 300
Bensalem, PA 19020
215-639-4274

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

Annual Stockholders' Meeting
Date - May 22, 2001
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

Curt Barringer
Southeast Divisional Vice President

Thomas B. Carpenter
General Counsel

James L. DiStefano
Chief Financial Officer and Treasurer

Michael Hammond
Western Regional Vice President

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

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

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
Philadelphia City Council Member

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

Robert J. Moss, Esq.
President - Moss Associates

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

Availability of Form 10-K

A copy of Healthcare Services Group, Inc.'s 2000 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 2001 Annual Shareholders' Meeting and to be filed within 120 days of the close of the year ended December 31, 2000.

Directors holding approximately 10.4% 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 definitive proxy statement to be mailed to shareholders in connection with its 2001 Annual Shareholders Meeting and to be filed within 120 days of the close of the fiscal year ended December 31, 2000.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the Company's definitive proxy statement to be mailed to shareholders in connection with its 2001 Annual Meeting and to be filed within 120 days of the close of the fiscal year ending December 31, 2000.

Directors holding approximately 12% of the outstanding voting stock of the registrant have been deemed to be "affiliates" solely for the purpose of computing the aggregate market value of the voting stock held by non-affiliates set forth on the cover page of this Repot.

Item 13. Certain Relationships and Related Transactions

The information regarding certain relationship and related transactions is incorporated herein by reference to the Company's definitive proxy statement mailed to shareholders in connection with its 2001 Annual Shareholders Meeting and to be filed within 120 days of the close of the fiscal year ended December 31, 2000.

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 2000 and are incorporated herein by reference, copies of which accompany this report.

Report of Independent Certified Public Accountants. Balance Sheets as of December 31, 2000 and 1999.
Statements of Income for the three years ended December 31, 2000, 1999 and 1998.
Statements of Cash Flows for the three years ended December 31, 2000, 1999 and 1998.
Statement of Stockholders' Equity for the three years ended December 31, 2000, 1999 and 1998.

Notes to Financial Statements.

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

Report of Independent Certified Public Accountants.
Schedule II - Valuation and Qualifying Accounts for the three years ended December 31, 2000, 1999 and 1998.

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	Amendment to Articles of Incorporation of the Registrant as of May 30, 2000, is attached.
3.3	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).
4.1	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).
4.2	Employee Stock Purchase Plan of the Registrant is incorporated by reference to Exhibit 4(a) of Registrant's Registration Statement on Form S-8 (Commission File No. 333-92835)
4.3	Deferred Compensation Plan is incorporated by reference to Exhibit 4(b) of Registrant's Registration Statement on Form S-8 (Commission File No. 333-92835)
10.1	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, Commission File No. 33-58765).
10.2	Amendment to the 1995 Employee Stock Option Plan is incorporated by reference To Exhibit 4(a) of Registrant's Registration Statement on Form S-8 (Commission File No. 333-46656)
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

(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 19, 2001

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 19, 2001
/s/ Joseph F. McCartney Joseph F. McCartney	Director and Vice President	March 19, 2001
/s/ W.Thacher Longstreth W. Thacher Longstreth	Director	March 19, 2001
/s/ Barton D. Weisman Barton D. Weisman	Director	March 19, 2001
/s/ Robert L. Frome Robert L. Frome	Director	March 19, 2001
/s/ Thomas A. Cook Thomas A. Cook	Director, President and Chief Operating Officer	March 19, 2001
/s/ John M. Briggs John M. Briggs	Director	March 19, 2001
/s/ Robert J. Moss Robert J. Moss	Director	March 19, 2001
/s/ James L. DiStefano James L. DiStefano	Chief Financial Officer and Treasurer	March 19, 2001
/s/ Richard W. Hudson Richard W. Hudson	Vice President-Finance, Secretary and Chief Accounting Officer	March 19, 2001

Exhibit 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our reports dated February 14, 2001, accompanying the consolidated financial statements and schedule included in the Annual Report of Healthcare Services Group, Inc. on Form 10-K for the year ended December 31, 2000. We hereby consent to the incorporation by reference of said reports in the 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 Plans of Healthcare Services Group, Inc. and in the Registration Statement (Form S-8 No. 333-92835) pertaining to the Employee Stock Purchase Plan and Deferred Compensation Plan of Healthcare Services Group, Inc.

/s/ Grant Thornton LLP
New York, New York
March 19, 2001

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULE

Board of Directors and Stockholders
Healthcare Services Group, Inc.

In connection with our audits of the consolidated financial statements of Healthcare Services Group, Inc., referred to in our report dated February 14, 2001, which is included in the 2000 Annual Report to Shareholders and is incorporated by reference in Form 10-K, we have also audited Schedule II for each of the three years in the period ended December 31, 2000. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

/s/ Grant Thornton LLP
New York, New York
February 14, 2001

Healthcare Services Group, Inc. Schedule II - Valuation and Qualifying Accounts Years Ended December 31, 2000, 1999, and 1998

		Additions			
Description	Balance- Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts (A)	Deductions (B)	Balance-End of Period
2000					
Allowance for Doubtful Accounts	$ 7,278,000	$ 3,250,000		$ 5,614,000	$ 4,914,000
1999					
Allowance for Doubtful Accounts	$ 3,449,000	$ 7,250,314		$ 3,421,314	$ 7,278,000
Allowance for Doubtful Accounts- Long-term Notes	$ 2,777,580	$ 816,214		$ 3,593,794	-0-
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

(A) Represents reclassificatons from allowance for doubtful accounts and other accounts
(B) Represents write-offs and reclassifications.

Microfilm Number 200043-1180 Filed with the Department of State on ----------- June 7, 2000 **Entity Number 641944**

Secretary of the Commonwealth

ARTICLES OF AMENDMENT-DOMESTIC BUSINESS CORPORATION
DSCB:15-1915 (Rev 90)

In compliance with the requirements of 15 Pa.C.S. ss. 1915 (relating to articles of amendment), the undersigned business corporation, desiring to amend its Articles, hereby states that:

1. The name of the corporation is: HEALTHCARE SERVICES GROUP, INC.

2. The (a) address of this corporation's current registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is (the Department is hereby authorized to correct the following information to conform to the records of the Department):

```
(a) 3220 Tillman Drive, Bensalem,           PA        19020           MONTGOMERY - Suite 300
    -----------------------------------------------------------------------------------------
    Number and Street    City               State         Zip                      County

(b) c/o:
        -------------------------------------------------------------------------------------
        Name of Commercial Registered Office Provider                              County
```

For a corporation represented by a commercial registered office provider, the county in (b) shall be deemed the county in which the corporation is located for venue and official publication purposes.

3. The statute by or under which it was incorporated is: Pennsylvania Business Corporation Law Act of May 5, 1933, P.L. 364, as amended

4. The date of its incorporation is: NOVEMBER 22, 1976

5. (Check, and if appropriate complete, one of the following):

X The amendment shall be effective upon filing these Articles of Amendment in the Department of State.

---- The amendment shall be effective on: ---------------------------- (Date) at ------------------------ (Hour)

6. (Check one of the following):

---- The amendment was adopted by the shareholders (or members) pursuant to 15 Pa.C.S. ss. 1914(a) and (b).

---- The amendment was adopted by the board of directors pursuant to 15 Pa.C.S. ss. 1914(c).

7. (Check, and if appropriate complete, one of the following):

---- The amendment adopted by the corporation, set forth in full, is as follows:

X The amendment adopted by the corporation is set forth in full in Exhibit A attached hereto and made a part hereof.

8. (Check if the amendment restates the Articles):

X The restated Articles of Incorporation supersede the original Articles and all amendments thereto.

IN TESTIMONY WHEREOF, the undersigned corporation has caused these Articles of Amendment to be signed by a duly authorized officer thereof this 30 day of May, 2000.

HEALTHCARE SERVICES GROUP, INC.
(Name of Corporation)

BY: Richard Hudson
(Signature)

TITLE: Secretary

Exhibit A

RESTATED ARTICLES OF INCORPORATION

OF

HEALTHCARE SERVICES GROUP, INC.

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1. The name of the corporation is:

HEALTHCARE SERVICES GROUP, INC.

2. The location and post office address of the registered office of the corporation is the Commonwealth is:

2643 Huntington Pike, Huntington Valley, Pennsylvania 19006, Attn: Richard Hudson.

3. The corporation is incorporated under the Business Corporation Law of the Commonwealth of Pennsylvania for the following purpose or purposes:

The Corporation shall have unlimited power to engage in and to do any lawful act concerning any or all lawful acts of business for which corporations may be incorporated under the Pennsylvania Business Corporation Law of 1933, as awarded.

4. The term for which the corporation is to exist is: perpetual

5. The aggregate number of shares which the corporation shall have authority to issue is:

The aggregate number of share of capital stock which the Corporation shall have authority to issue is 30,000,000 shares of common stock with a par value of $.01 per share.

6. The names(s) and post office address(es) of each incorporator(s) and the number and class of shares subscribed by such incorporator(s) is (are):

NAME	ADDRESS	NUMBER AND CLASS OF SHARES
Thomas J. Stevens, Jr.	320 W. Street Road Warminster, PA 18974	One (1) share of Common Stock

7. The holders of shares of the Corporation's outstanding Common Stock, $.01 par value, shall be denied cumulative voting rights with respect to the shares of the Common Stock held by them but shall be entitled to one vote per share as to any and all matters brought or required to be brought for a vote by the Corporation's shareholders.