# HEALTHCARE SERVICES GROUP INC

## FORM 10-Q
(Quarterly Report)

Filed 04/28/17 for the Period Ending 03/31/17

| | |
|---|---|
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| Telephone | 2159381661 |
| CIK | 0000731012 |
| Symbol | HCSG |
| SIC Code | 8050 - Nursing And Personal Care Facilities |
| Industry | Business Support Services |
| Sector | Industrials |
| Fiscal Year | 12/31 |

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

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# Form 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2017**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number: 0-12015**

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# HEALTHCARE SERVICES GROUP, INC.

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Pennsylvania** | **23-2018365** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S 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**

Indicate by check mark whether the registrant (1) has filed all reports required 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 ☑ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☑ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☑ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | (Do not check if a smaller reporting company) | |
| | | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act . ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☑

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. Common Stock, $.01 par value: 72,989,000 shares outstanding as of April 26, 2017 .

**Healthcare Services Group, Inc.**
**Quarterly Report on Form 10-Q**
**For the Period Ended March 31, 2017**

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report and documents incorporated by reference into this report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, which are not historical facts but rather are based on current expectations, estimates and projections about our business and industry, and our beliefs and assumptions. Words such as "believes," "anticipates," "plans," "expects," "will," "goal," and similar expressions are intended to identify forward-looking statements. The inclusion of forward-looking statements should not be regarded as a representation by us that any of our plans will be achieved. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Such forward-looking information is also subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, risks arising from our providing services exclusively to the health care industry, primarily providers of long-term care; credit and collection risks associated with this industry; having several clients who individually contributed over 4.0% , with one as high as 9.9% , of our total consolidated revenues for the three months ended March 31, 2017 ; our claims experience related to workers' compensation and general liability insurance; the effects of changes in, or interpretations of laws and regulations governing the industry, our workforce and services provided, including state and local regulations pertaining to the taxability of our services and other labor related matters such as minimum wage increases; continued realization of tax benefits arising from our corporate reorganization and self-funded health insurance program; risks associated with the reorganization of our corporate structure; and the risk factors described in Part I of our Form 10-K for the fiscal year ended December 31, 2016 under "Government Regulation of Clients," "Competition" and "Service Agreements and Collections," and under Item IA. "Risk Factors."

These factors, in addition to delays in payments from clients and/or clients in bankruptcy or clients with which we are in litigation to collect payment, have resulted in, and could continue to result in, significant additional bad debts in the near future. Additionally, our operating results would be adversely affected if unexpected increases in the costs of labor and labor-related costs, materials, supplies and equipment used in performing services could not be passed on to our clients.

In addition, we believe that to improve our financial performance we must continue to obtain service agreements with new clients, retain and provide new services to existing clients, achieve modest price increases on current service agreements with existing clients and maintain internal cost reduction strategies at our various operational levels. Furthermore, we believe that our ability to sustain the internal development of managerial personnel is an important factor impacting future operating results and the successful execution of our projected growth strategies.

**PART I — FINANCIAL INFORMATION**
**Item 1. Financial Statements (Unaudited)**

**Healthcare Services Group, Inc.**
**Consolidated Balance Sheets**
**(in thousands, except per share amounts)**

| | March 31, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | $ 48,230 | $ 23,853 |
| Marketable securities, at fair value | 68,260 | 67,730 |
| Accounts and notes receivable, less allowance for doubtful accounts of $7,698 as of March 31, 2017 and $6,911 as of December 31, 2016 | 281,113 | 271,276 |
| Inventories and supplies | 37,294 | 37,800 |
| Prepaid expenses and other assets | 16,824 | 13,965 |
| Total current assets | 451,721 | 414,624 |
| Property and equipment, net | 13,397 | 13,455 |
| Goodwill | 44,438 | 44,438 |
| Other intangible assets, less accumulated amortization of $15,279 as of March 31, 2017 and $14,672 as of December 31, 2016 | 13,802 | 14,409 |
| Notes receivable — long term portion | 7,056 | 7,531 |
| Deferred compensation funding, at fair value | 25,082 | 24,119 |
| Deferred income taxes | 9,564 | 9,822 |
| Other noncurrent assets | 48 | 48 |
| Total Assets | $ 565,108 | $ 528,446 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable | $ 47,952 | $ 42,912 |
| Accrued payroll, accrued and withheld payroll taxes | 34,334 | 22,303 |
| Other accrued expenses | 3,118 | 4,397 |
| Income taxes payable | 8,403 | 7,686 |
| Accrued insurance claims | 23,857 | 23,573 |
| Total current liabilities | 117,664 | 100,871 |
| Accrued insurance claims — long term portion | 64,581 | 64,080 |
| Deferred compensation liability | 26,386 | 24,653 |
| Commitments and contingencies | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, $.01 par value; 100,000 shares authorized; 74,423 and 74,204 shares issued, and 72,882 and 72,601 shares outstanding as of March 31, 2017 and December 31, 2016, respectively | 744 | 742 |
| Additional paid-in capital | 226,075 | 217,664 |
| Retained earnings | 139,333 | 130,940 |
| Accumulated other comprehensive income (loss), net of taxes | 160 | (319) |
| Common stock in treasury, at cost, 1,541 shares as of March 31, 2017 and 1,603 shares as of December 31, 2016 | (9,835) | (10,185) |
| Total stockholders' equity | $ 356,477 | $ 338,842 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 565,108 | $ 528,446 |

See accompanying notes.

**Healthcare Services Group, Inc.**
**Consolidated Statements of Comprehensive Income**
**(in thousands, except per share amounts)**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Revenues | $ 404,490 | $ 384,807 |
| Operating costs and expenses: | | |
| Costs of services provided | 345,570 | 330,044 |
| Selling, general and administrative expense | 28,210 | 25,346 |
| Other income, net: | | |
| Investment and interest | 1,569 | 187 |
| Income before income taxes | 32,279 | 29,604 |
| Income tax provision | 10,262 | 10,978 |
| Net income | $ 22,017 | $ 18,626 |
| | | |
| **Per share data:** | | |
| Basic earnings per common share | $ 0.30 | $ 0.26 |
| Diluted earnings per common share | $ 0.30 | $ 0.26 |
| | | |
| **Weighted average number of common shares outstanding:** | | |
| Basic | 73,074 | 72,364 |
| Diluted | 73,946 | 73,014 |
| | | |
| **Comprehensive income:** | | |
| Net income | $ 22,017 | $ 18,626 |
| Other comprehensive income: | | |
| Unrealized gain on available for sale marketable securities, net of taxes | 479 | 555 |
| Total comprehensive income | $ 22,496 | $ 19,181 |

See accompanying notes.

**Healthcare Services Group, Inc.**
**Consolidated Statements of Cash Flows**
**(in thousands)**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Cash flows from operating activities: | | |
| Net income | $ 22,017 | $ 18,626 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,886 | 1,965 |
| Bad debt provision | 1,050 | 1,100 |
| Deferred income tax expense | — | 3,395 |
| Stock-based compensation expense, net of tax benefit from equity compensation plans [1] | 445 | 609 |
| Amortization of premium on marketable securities | 343 | 318 |
| Unrealized (gain) loss on deferred compensation fund investments | (1,209) | 278 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (10,887) | (22,899) |
| Inventories and supplies | 506 | (1,619) |
| Prepaid expenses and other assets | (2,859) | (3,277) |
| Notes receivable - long term | 475 | — |
| Deferred compensation funding | 246 | (268) |
| Accounts payable and other accrued expenses | 3,639 | (4,100) |
| Accrued payroll, accrued and withheld payroll taxes | 15,299 | 18,070 |
| Income taxes payable [1] | 1,852 | (3,618) |
| Accrued insurance claims | 784 | 1,009 |
| Deferred compensation liability | 1,059 | 100 |
| Net cash provided by operating activities | 34,646 | 9,689 |
| | | |
| Cash flows from investing activities: | | |
| Disposals of fixed assets | 104 | 114 |
| Additions to property and equipment | (1,325) | (1,459) |
| Purchases of marketable securities | (7,858) | (4,966) |
| Sales of marketable securities | 7,723 | 2,640 |
| Net cash used in investing activities | (1,356) | (3,671) |
| | | |
| Cash flows from financing activities: | | |
| Dividends paid | (13,624) | (13,158) |
| Reissuance of treasury stock pursuant to Dividend Reinvestment Plan | 24 | 28 |
| Tax benefit from equity compensation plans [1] | — | 509 |
| Proceeds from the exercise of stock options | 4,687 | 2,534 |
| Net cash used in financing activities | (8,913) | (10,087) |
| | | |
| Net change in cash and cash equivalents | 24,377 | (4,069) |
| Cash and cash equivalents at beginning of the period | 23,853 | 33,189 |
| Cash and cash equivalents at end of the period | $ 48,230 | $ 29,120 |
| Supplementary Cash Flow Information: | | |
| Cash paid for interest | $ 204 | $ 155 |
| Cash paid for income taxes, net of refunds | $ 9,544 | $ 11,201 |

[1] The Company adopted the provisions of ASU 2016-09 prospectively, and as such the amounts reflected for the three months ended March 31, 2016 have not been adjusted.

See accompanying notes.

**Healthcare Services Group, Inc.**
**Consolidated Statement of Stockholders' Equity**
**(in thousands, except per share amounts)**
**(Unaudited)**

| | Three Months Ended March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss), net of taxes | Retained Earnings | Treasury Stock | Stockholders' Equity |
| | Shares | Amount | | | | | |
| **Balance — December 31, 2016** | **74,204** | **$ 742** | **$ 217,664** | **$ (319)** | **$ 130,940** | **$ (10,185)** | **$ 338,842** |
| Comprehensive income: | | | | | | | |
| Net income for the period | | | | | 22,017 | | 22,017 |
| Unrealized gain on available for sale marketable securities, net of taxes | | | | 479 | | | 479 |
| Comprehensive income | | | | | | | 22,496 |
| Exercise of stock options and other stock-based compensation, net of shares tendered for payment | 219 | 2 | 4,685 | | | | 4,687 |
| Share-based compensation expense — stock options, restricted stock and restricted stock units | | | 1,459 | | | | 1,459 |
| Treasury shares issued for Deferred Compensation Plan funding and redemptions | | | 495 | | | 7 | 502 |
| Shares issued pursuant to Employee Stock Plan | | | 1,752 | | | 339 | 2,091 |
| Cash dividends | | | | | (13,624) | | (13,624) |
| Shares issued pursuant to Dividend Reinvestment Plans | | | 20 | | | 4 | 24 |
| **Balance — March 31, 2017** | **74,423** | **$ 744** | **$ 226,075** | **$ 160** | **$ 139,333** | **$ (9,835)** | **$ 356,477** |

See accompanying notes.

**Healthcare Services Group, Inc.**
**Notes to Consolidated Financial Statements**
**(Unaudited)**

## Note 1— Description of Business and Significant Accounting Policies

### Nature of Operations

Healthcare Services Group, Inc. (the "Company") provides management, administrative and operating expertise and services to the housekeeping, laundry, linen, facility maintenance and dietary service departments of the health care industry, including nursing homes, retirement complexes, rehabilitation centers and hospitals located throughout the United States. Although we do not directly participate in any government reimbursement programs, our clients receive government reimbursements related to Medicare and Medicaid. Therefore, they are directly affected by any legislation relating to Medicare and Medicaid reimbursement programs.

We provide our services primarily pursuant to full service agreements with our clients. In such agreements, we are responsible for the day-to-day management of employees located at our clients' facilities. We also provide services on the basis of management-only agreements for a limited number of clients. Our agreements with clients typically provide for renewable one year service terms, cancelable by either party upon 30 to 90 days' notice after the initial 60 to 120 day period.

We are organized into two reportable segments: housekeeping, laundry, linen and other services ("Housekeeping"), and dietary department services ("Dietary").

Housekeeping consists of managing our clients' housekeeping departments, which are principally responsible for the cleaning, disinfecting and sanitizing of resident rooms and common areas of a client's facility, as well as the laundering and processing of the bed linens, uniforms, resident personal clothing and other assorted linen items utilized at a client facility.

Dietary consists of managing our clients' dietary departments which are principally responsible for food purchasing, meal preparation and dietitian professional services, which includes the development of menus that meets residents' dietary needs.

### Unaudited Interim Financial Data

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") for interim financial information and the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, these consolidated financial statements do not include all of the information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows. However, in our opinion, all adjustments which are of a normal recurring nature and are necessary for a fair presentation have been reflected in these consolidated financial statements. The balance sheet shown in this report as of December 31, 2016 has been derived from, and does not include, all of the disclosures contained in the financial statements for the year ended December 31, 2016 . These financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016 . The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for any future period.

Certain amounts in the prior year financial statements have been reclassified to conform to current presentation.

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Healthcare Services Group, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

### Cash and Cash Equivalents

Cash and cash equivalents are held in U.S. financial institutions or in custodial accounts with U.S. financial institutions. Cash equivalents are defined as short-term, highly liquid investments with a maturity of three months or less at the time of purchase that are readily convertible into cash and have insignificant interest rate risk.

**Inventories and Supplies**

Inventories and supplies include housekeeping, linen and laundry supplies, as well as food provisions and supplies. Inventories and supplies are stated at cost to approximate a first-in, first-out (FIFO) basis. Linen supplies are amortized on a straight-line basis over their estimated useful life of 24 months.

**Revenue Recognition**

Revenues from our service agreements with clients are recognized as services are performed. Revenues are reported net of sales taxes that are collected from customers and remitted to taxing authorities.

**Income Taxes**

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current period. We accrue for probable tax obligations as required by facts and circumstances in various regulatory environments. In addition, deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. When appropriate, valuation allowances are recorded to reduce deferred tax assets to amounts for which realization is more likely than not.

Uncertain income tax positions taken or expected to be taken in tax returns are reflected within our financial statements based on a recognition and measurement process.

**Earnings per Common Share**

Basic earnings per common share are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share are calculated using the weighted-average number of common shares outstanding and dilutive common shares, such as those issuable upon exercise of stock options and upon the vesting of restricted stock and restricted stock units.

**Share-Based Compensation**

We estimate the fair value of share-based awards on the date of grant using the Black-Scholes valuation model for stock options and using the share price on the date of grant for restricted stock and restricted stock units. The value of the award is recognized ratably as an expense in the Company’s Consolidated Statements of Comprehensive Income over the requisite service periods, with adjustments made for forfeitures as they occur.

**Use of Estimates in Financial Statements**

In preparing financial statements in conformity with U.S. GAAP, we make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates. Significant estimates are used in determining, but are not limited to, our allowance for doubtful accounts, accrued insurance claims, asset valuations, deferred taxes and reviews for potential impairment. The estimates are based upon various factors including current and historical trends, as well as other pertinent industry and regulatory authority information. We regularly evaluate this information to determine if it is necessary to update the basis for our estimates and to adjust for known changes.

**Concentrations of Credit Risk**

Our financial instruments that are subject to concentrations of credit risk are cash and cash equivalents, marketable securities, deferred compensation funding and accounts and notes receivable. We define our marketable securities as fixed income investments which are highly liquid and can be readily purchased or sold through established markets. At March 31, 2017 and December 31, 2016 , substantially all of our cash and cash equivalents and marketable securities were held in one large financial institution located in the United States.

Our clients are concentrated in the health care industry and are primarily providers of long-term care. Many of our clients’ revenues are highly reliant on Medicare, Medicaid and third party payors’ reimbursement funding rates. New legislation or changes in existing regulations could be made which could directly impact the governmental reimbursement programs in which our clients participate. As a result, we may not know the full effects of such programs until these laws are fully implemented and governmental agencies issue applicable regulations or guidance.

**Recent Accounting Pronouncements**

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-09, *Stock Compensation: Improvements to Employee Share-Based Payment Accounting.* ASU 2016-09 is intended to simplify several aspects of the accounting for share-based payments. The Company adopted the standard beginning January 1, 2017. The impacts of adopting the standard have included the recognition of excess tax benefits related to share-based payments as a component of income tax expense, as opposed to additional paid-in capital; an amendment to the calculation of diluted earnings per share to exclude windfall tax benefits from assumed proceeds when calculating diluted shares outstanding; as well as accounting for forfeitures of share-based awards as they occur, as opposed to reserving for estimated forfeitures.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business* . The guidance changes the definition of a business to assist entities in evaluating whether a set of transferred assets and activities constitutes a business under Topic 805. The guidance is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Company plans to adopt the standard effective January 1, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* , which was subsequently amended and updated throughout 2015 and 2016. The standard provides guidance on revenue recognition, among other topics such as the accounting for compensation and costs to obtain a contract. The standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption is required for reporting periods beginning after December 15, 2017, with early adoption prohibited. The Company plans to adopt the standard beginning on January 1, 2018. The Company is in the process of evaluating the impact of the adoption of this ASU, as well as determining the transition method that will be applied. Our analysis has consisted of reviewing the nature and terms of our existing contracts under the provisions of the new guidance and assessing any operational changes and process updates required for compliance. Currently, the Company does not expect a material impact to our accounting for the revenue we earn related to our Housekeeping and Dietary services. We anticipate that the most significant impact of the new standard will relate to additional disclosure obligations.

In February 2016, the FASB issued ASU 2016-02, *Leases* . ASU 2016-02 requires lessees to recognize assets and liabilities on their balance sheet related to the rights and obligations created by most leases, while continuing to recognize expenses on their income statements over the lease term. It will also require disclosures designed to give financial statement users information regarding the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted for all entities. The Company will adopt the new guidance as of January 1, 2019. We are continuing to evaluate the expected impact of the requirements, however we expect the primary impact will relate to the capitalization of operating leases of office space, vehicles and equipment.

**Note 2—Changes in Accumulated Other Comprehensive Income by Component**

Accumulated other comprehensive income consists of unrealized gains and losses from our available for sale marketable securities.
The following table provides a summary of the changes in accumulated other comprehensive income for the three months ended March 31, 2017 and 2016 :

| | Unrealized Gains (Losses) on Available for Sale Securities [1] | |
|---|---|---|
| | Three Months Ended March 31, | |
| | 2017 | 2016 |
| | (in thousands) | |
| Accumulated other comprehensive income (loss) — beginning balance | $ (319) | $ 543 |
| Other comprehensive income before reclassifications | 446 | 594 |
| Amounts reclassified from accumulated other comprehensive income (loss) [2] | 33 | (39) |
| Net current period change in other comprehensive income [3] | 479 | 555 |
| Accumulated other comprehensive income — ending balance | $ 160 | $ 1,098 |

(1) All amounts are net of tax.
(2) Realized gains and losses are recorded pre-tax under “Other income - Investment and interest” in our Consolidated Statements of Comprehensive Income. For the three months ended March 31, 2017 and 2016 , the Company recorded $48 thousand and $62 thousand of realized losses and gains, respectively, from the sale of available for sale securities. Refer to Note 5 herein for further information.
(3) For the three months ended March 31, 2017 and 2016 , these changes in other comprehensive income were net of tax effects of $0.3 million , respectively.

**Note 3—Property and Equipment**

Property and equipment are recorded at cost. Depreciation is recorded over the estimated useful life of each class of depreciable assets, and is computed using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated asset life or term of the lease. Repairs and maintenance costs are charged to expense as incurred.

The following table sets forth the amounts of property and equipment by each class of depreciable assets as of March 31, 2017 and December 31, 2016 :

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Housekeeping and Dietary equipment | $ 21,431 | $ 21,136 |
| Computer hardware and software | 11,977 | 11,750 |
| Other [1] | 1,133 | 1,133 |
| Total property and equipment, at cost | 34,541 | 34,019 |
| Less accumulated depreciation | 21,144 | 20,564 |
| Total property and equipment, net | $ 13,397 | $ 13,455 |

(1) Includes furniture and fixtures, leasehold improvements and autos and trucks.

Depreciation expense for the three months ended March 31, 2017 and 2016 was $1.3 million and $1.2 million , respectively.

**Note 4—Goodwill and Other Intangible Assets**

*Goodwill*

Goodwill represents the excess of the purchase price over the fair value of the net assets of an acquired business. Goodwill is not amortized, but is evaluated for impairment on an annual basis, or more frequently if impairment indicators arise.

Goodwill by reportable operating segment, as described in Note 10 herein, was approximately $42.3 million and $2.1 million for Housekeeping and Dietary, respectively, as of both March 31, 2017 and December 31, 2016 .

*Intangible Assets*

Our intangible assets were acquired through acquisitions and are recorded at their fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful lives. The customer relationships have a weighted-average amortization period of 9.7 years .

The following table sets forth the amounts of our identifiable intangible assets subject to amortization:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Customer relationships | $ 29,081 | $ 29,081 |
| Total other intangibles, gross | 29,081 | 29,081 |
| Less accumulated amortization | 15,279 | 14,672 |

| | | |
|---|---|---|
| Other intangibles, net | $ 13,802 | $ 14,409 |

The following table sets forth the estimated amortization expense for intangibles subject to amortization for the remainder of 2017 , the following five fiscal years and thereafter:

| Period/Year | Total Amortization Expense |
|---|---|
| | (in thousands) |
| April 1 to December 31, 2017 | $ 1,820 |
| 2018 | $ 2,328 |
| 2019 | $ 2,130 |
| 2020 | $ 2,130 |
| 2021 | $ 2,130 |
| 2022 | $ 2,130 |
| Thereafter | $ 1,134 |

Amortization expense for the three months ended March 31, 2017 and 2016 was $0.6 million and $0.8 million , respectively.

**Note 5—Fair Value Measurements**

The Company's current assets (other than marketable securities and inventories) and current liabilities are financial instruments and most of these items are recorded at cost in the Consolidated Balance Sheets. The estimated fair value of these financial instruments approximates their carrying value due to their short-term nature. Our financial assets that are measured at fair value on a recurring basis are our marketable securities and our deferred compensation funding. We believe the recorded values of all of our financial instruments approximate their current fair values because of their nature, stated interest rates and respective maturity dates or durations.

The Company's marketable securities consist of tax-exempt municipal bonds, which we classify as available-for-sale and which are reported at fair value. Unrealized gains and losses associated with these investments are included in other comprehensive income (net of tax) within our Consolidated Statements of Comprehensive Income. The fair value of these marketable securities is classified within Level 2 of the fair value hierarchy, as these securities are measured using quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable. Such valuations are determined by a third-party pricing service. For the three months ended March 31, 2017 , we recorded unrealized gains on marketable securities of $0.5 million and for the three months ended March 31, 2016 , we recorded unrealized gains on marketable securities of $0.6 million .

For the three months ended March 31, 2017 and 2016 , we received total proceeds, less the amount of interest received, of $7.5 million and $2.0 million , respectively, from sales of available-for-sale municipal bonds. For the three months ended March 31, 2017 , these sales resulted in realized losses of $48 thousand which were recorded in "Other income, net – Investment and interest" in our Consolidated Statements of Comprehensive Income. The basis for the sale of these securities was the specific identification of each bond sold during the period. For the three months ended March 31, 2016 , there were $62 thousand in realized gains .

The investments under the funded deferred compensation plan are accounted for as trading securities and unrealized gains or losses are included in earnings. The fair value of these investments are determined based on quoted market prices (Level 1).

The following tables provide fair value measurement information for our marketable securities and deferred compensation fund investments as of March 31, 2017 and December 31, 2016 :

| | As of March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurement Using: | | |
| | Carrying Amount | Total Fair Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | (in thousands) | | |
| Financial Assets: | | | | | |
| Marketable securities | | | | | |
| Municipal bonds — available for sale | $ 68,260 | $ 68,260 | $ — | $ 68,260 | $ — |
| | | | | | |
| Deferred compensation fund | | | | | |
| Money Market [(1)] | $ 2,903 | $ 2,903 | $ — | $ 2,903 | $ — |
| Balanced and Lifestyle | 7,420 | 7,420 | 7,420 | — | — |
| Large Cap Growth | 6,226 | 6,226 | 6,226 | — | — |
| Small Cap Growth | 2,983 | 2,983 | 2,983 | — | — |
| Fixed Income | 2,799 | 2,799 | 2,799 | — | — |
| International | 1,237 | 1,237 | 1,237 | — | — |
| Mid Cap Growth | 1,514 | 1,514 | 1,514 | — | — |
| Deferred compensation fund | $ 25,082 | $ 25,082 | $ 22,179 | $ 2,903 | $ — |

| | As of December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurement Using: | | |
| | Carrying Amount | Total Fair Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | (in thousands) | | |
| Financial Assets: | | | | | |
| Marketable securities | | | | | |
| Municipal bonds — available for sale | $ 67,730 | $ 67,730 | $ — | $ 67,730 | $ — |
| | | | | | |
| Deferred compensation fund | | | | | |
| Money Market [(1)] | $ 3,147 | $ 3,147 | $ — | $ 3,147 | $ — |
| Balanced and Lifestyle | 7,162 | 7,162 | 7,162 | — | — |
| Large Cap Growth | 5,583 | 5,583 | 5,583 | — | — |
| Small Cap Growth | 2,933 | 2,933 | 2,933 | — | — |
| Fixed Income | 2,752 | 2,752 | 2,752 | — | — |
| International | 1,132 | 1,132 | 1,132 | — | — |
| Mid Cap Growth | 1,410 | 1,410 | 1,410 | — | — |
| Deferred compensation fund | $ 24,119 | $ 24,119 | $ 20,972 | $ 3,147 | $ — |

(1) The fair value of the money market fund is based on the net asset value (“NAV”) of the shares held by the plan at the end of the period. The money market fund includes short-term United States dollar denominated money market instruments and the NAV is determined by the custodian of the fund. The money market fund can be redeemed at its NAV at the measurement date as there are no significant restrictions on the ability to sell this investment.

| | Amortized Cost | | Gross Unrealized Gains | | Gross Unrealized Losses | | Estimated Fair Value | | Other-than-temporary Impairments | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (in thousands) | | | | | |
| March 31, 2017 | | | | | | | | | | |
| Type of security: | | | | | | | | | | |
| Municipal bonds — available for sale | $ | 68,013 | $ | 477 | $ | (230) | $ | 68,260 | $ | — |
| Total debt securities | $ | 68,013 | $ | 477 | $ | (230) | $ | 68,260 | $ | — |
| | | | | | | | | | | |
| December 31, 2016 | | | | | | | | | | |
| Type of security: | | | | | | | | | | |
| Municipal bonds — available for sale | $ | 68,220 | $ | 178 | $ | (668) | $ | 67,730 | $ | — |
| Total debt securities | $ | 68,220 | $ | 178 | $ | (668) | $ | 67,730 | $ | — |

The following table summarizes the contractual maturities of debt securities held at March 31, 2017 and December 31, 2016 , which are classified as marketable securities in the Consolidated Balance Sheets:

| | Municipal Bonds — Available for Sale | | | |
|---|---|---|---|---|
| **Contractual maturity:** | March 31, 2017 | | December 31, 2016 | |
| | (in thousands) | | | |
| Maturing in one year or less | $ | 784 | $ | 973 |
| Maturing in second year through fifth year | | 18,021 | | 28,671 |
| Maturing in sixth year through tenth year | | 24,076 | | 21,651 |
| Maturing after ten years | | 25,379 | | 16,435 |
| Total debt securities | $ | 68,260 | $ | 67,730 |

**Note 6— Share-Based Compensation**

A summary of stock-based compensation expense for the three months ended March 31, 2017 and 2016 is as follows:

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | (in thousands) | | | |
| Stock options | $ | 1,172 | $ | 878 |
| Restricted stock and restricted stock units | | 287 | | 135 |
| Employee Stock Purchase Plan | | 121 | | 105 |
| Total pre-tax stock-based compensation expense charged against income [(1)] | $ | 1,580 | $ | 1,118 |

(1) Stock-based compensation expense is recorded in selling, general and administrative expense in our Consolidated Statements of Comprehensive Income.

At March 31, 2017 , the unrecognized compensation cost related to unvested stock options and awards was $15.2 million . The weighted average period over which these awards will vest is approximately 3.5 years.

**2012 Equity Incentive Plan**

The Company’s 2012 Equity Incentive Plan (the “Plan”) provides that current or prospective officers, employees, non-employee directors and advisors can receive share-based awards such as stock options, restricted stock, restricted stock units and other stock awards. The Plan seeks to promote the highest level of performance by providing an economic interest in the long-term success of the Company.

As of March 31, 2017 , 3.7 million shares of common stock were reserved for issuance under the Plan, including 0.7 million shares available for future grant. No stock award will have a term in excess of ten years. All awards granted under the Plan become vested and exercisable ratably over a five year period on each yearly anniversary of the grant date.

The Nominating, Compensation and Stock Option Committee of the Board of Directors is responsible for determining the terms of the grants in accordance with the Plan.

***Stock Options***

A summary of our stock options outstanding under the Plan as of December 31, 2016 and changes during the three months ended March 31, 2017 is as follows:

| | Stock Options Outstanding | |
|---|---|---|
| | Number of Shares | Weighted Average Exercise Price |
| | (in thousands) | |
| December 31, 2016 | 2,615 | $ 24.61 |
| Granted | 544 | $ 39.38 |
| Cancelled | (39) | $ 33.82 |
| Exercised | (201) | $ 23.31 |
| March 31, 2017 | 2,919 | $ 27.33 |

The weighted average grant-date fair value of stock options granted during the three months ended March 31, 2017 and 2016 was $8.52 and $7.46 per common share, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2017 and 2016 was $3.5 million and $1.7 million , respectively.

The fair value of stock option awards granted in 2017 and 2016 was estimated on the date of grant using the Black-Scholes option valuation model using the following assumptions:

| | Three Months Ended | |
|---|---|---|
| | 2017 | 2016 |
| Risk-free interest rate | 2.0% | 2.0% |
| Weighted average expected life (years) | 5.8 years | 5.8 years |
| Expected volatility | 25.1% | 26.0% |
| Dividend yield | 1.9% | 2.0% |

The following table summarizes other information about our stock options at March 31, 2017 :

| | March 31, 2017 |
|---|---|
| | (in thousands, except per share data) |
| Outstanding: | |
| Aggregate intrinsic value | $ 46,007 |
| Weighted average remaining contractual life (years) | 6.7 years |
| Exercisable: | |
| Number of options | 1,437 |
| Weighted average exercise price | $ 20.50 |
| Aggregate intrinsic value | $ 32,464 |
| Weighted average remaining contractual life (years) | 4.8 years |

***Restricted Stock***

During the three months ended March 31, 2017 , the Company did no t grant shares of restricted stock. During the three months ended March 31, 2016 , the Company granted 44 thousand shares of restricted stock with a weighted average grant date fair value of $34.14 per share. Fair value is determined based on the market price of the shares on the date of grant.

A summary of our outstanding restricted stock awards as of December 31, 2016 and changes during the three months ended March 31, 2017 is as follows:

| | Shares | Weighted Average Grant Date Fair Value | |
|---|---|---|---|
| | (in thousands) | | |
| December 31, 2016 | 74 | $ | 32.09 |
| Granted | — | $ | — |
| Vested | (18) | $ | 31.41 |
| Forfeited | — | $ | — |
| March 31, 2017 | 56 | $ | 32.30 |

***Restricted Stock Units***

During the three months ended March 31, 2017 , the Company granted 81 thousand restricted stock units with a weighted average grant date fair value of $39.38 per share. Fair value is determined based on the market price of the shares on the date of grant. During the three months ended March 31, 2016 , there were no grants of restricted stock units.

A summary of our outstanding restricted stock units as of December 31, 2016 and changes during the three months ended March 31, 2017 is as follows:

| | Units | Weighted Average Grant Date Fair Value | |
|---|---|---|---|
| | (in thousands) | | |
| December 31, 2016 | — | $ | — |
| Granted | 81 | $ | 39.38 |
| Vested | — | $ | — |
| Forfeited | — | $ | — |
| March 31, 2017 | 81 | $ | 39.38 |

**Employee Stock Purchase Plan**

The Company offers an Employee Stock Purchase Plan (“ESPP”) to all eligible employees. The ESPP was scheduled to expire after 2016, however the Board of Directors extended the program for an additional five offerings through 2021. All full-time and certain part-time employees who have completed two years of continuous service with us are eligible to participate. Annual offerings commence and terminate on the respective year’s first and last calendar day.

Under the ESPP, the Company is authorized to issue up to 4.1 million shares of our common stock to our employees. Pursuant to such authorization, there are 2.3 million shares available for future grant at March 31, 2017 .

The stock-based compensation expense associated with the options granted in 2017 and 2016 under our ESPP was estimated on the date of grant using the Black-Scholes option valuation model using the following assumptions:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Risk-free interest rate | 1.05% | 0.58% |
| Weighted average expected life (years) | 1.0 | 1.0 |
| Expected volatility | 21.2% | 19.7% |
| Dividend yield | 1.9% | 2.0% |

**Deferred Compensation Plan**

The Company offers a Supplemental Executive Retirement Plan (“SERP”) for certain key executives and employees. The SERP allows participants to defer a portion of their earned income on a pre-tax basis and as of the last day of each plan year, each participant will be credited with a match up to a portion of their deferral in the form of our Common Stock based on the then-current market value. Under the SERP, we are authorized to issue 1.0 million shares of our common stock to our employees. Pursuant to such authorization, we have 0.4 million shares available for future grant at March 31, 2017 . At the time of issuance, such shares are accounted for at cost as treasury stock.

The following table summarizes information about our SERP during the three months ended March 31, 2017 and 2016 :

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (in thousands) | |
| SERP expense [(1)] | $ 160 | $ 164 |
| Unrealized gain (loss) recorded in SERP liability account | $ 1,161 | $ (328) |

(1) Both the SERP match and the deferrals are included in the selling, general and administrative caption in our consolidated statements of comprehensive income.

**Note 7— Dividends**

During the three months ended March 31, 2017 , we paid regular quarterly cash dividends totaling approximately $13.6 million as follows:

| | Three Months Ended March 31, 2017 |
|---|---|
| | (in thousands, except per share amounts) |
| Cash dividends paid per common share | $ 0.18625 |
| Total cash dividends paid | $ 13,624 |
| Record date | February 17, 2017 |
| Payment date | March 24, 2017 |

Additionally, on April 11, 2017 , our Board of Directors declared a regular quarterly cash dividend of $0.1875 per common share, which will be paid on June 23, 2017 , to shareholders of record as of the close of business on May 19, 2017 .

Cash dividends declared on our outstanding weighted average number of basic common shares for the periods presented were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Cash dividends declared per common share | $ 0.18750 | $ 0.18250 |

**Note 8— Income Taxes**

The 2017 estimated annual effective tax rate is expected to be approximately 35% . Differences between the effective tax rate and the applicable U.S. federal statutory rate arise primarily from the effect of state and local income taxes, share-based compensation and tax credits available to the Company. The actual 2017 effective tax rate will likely vary from the estimate depending on the availability of tax credits. and the exercises of stock options and vesting of share-based awards. Due to the adoption of ASU 2016-09, the tax effects of option exercises or vested awards should be treated as discrete items in the reporting period in which they occur, and therefore cannot be considered in the calculation of the estimated annual effective tax rate.

We account for income taxes using the asset and liability method, which results in recognizing income tax expense based on the amount of income taxes payable or refundable for the current year. Additionally, we evaluate regularly the tax positions taken or expected to be taken resulting from financial statement recognition of certain items. Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. Our evaluation was performed for the tax years ended December 31, 2013 through 2016 (with regard to U.S. federal income tax returns) and December 31, 2012 through 2016 (with regard to various state and local income tax returns), the tax years which remain subject to examination by major tax jurisdictions as of March 31, 2017 .

We may from time to time be assessed interest or penalties by taxing jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. When we have received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense. In addition, any interest or penalties relating to recognized uncertain tax positions would also be recorded in selling, general and administrative expense.

**Note 9—Related Party Transactions**

A director is a member of a law firm retained by us. In each of the three months ended March 31, 2017 and 2016 , fees received from us by such firm did not exceed $120,000 . Additionally, such fees did not exceed, in either period, 5% of such firm's or the Company's revenues.

**Note 10—Segment Information**

We manage and evaluate our operations in two reportable segments: Housekeeping (housekeeping, laundry, linen and other services) and Dietary (dietary department services). Although both segments serve the same client base and share many operational similarities, they are managed separately due to distinct differences in the type of services provided, as well as the specialized expertise required of the professional management personnel responsible for delivering each segment's services. Such services are rendered pursuant to distinct service agreements, specific to each reportable segment.

The Company's accounting policies for the segments are generally the same as described in the Company's significant accounting policies. Differences between the reportable segments' operating results and other disclosed data and our consolidated financial statements relate primarily to corporate level transactions and recording of transactions at the reportable segment level which use methods other than generally accepted accounting principles. There are certain inventories and supplies that are primarily expensed when incurred within the operating segments, while they are capitalized in the consolidated financial statements. As discussed, most corporate expenses are not allocated to the operating segments. Such expenses include corporate salary and benefit costs, certain legal costs, information technology costs, depreciation, amortization of finite lived intangible assets, share based compensation costs and other corporate-specific costs. Additionally, there are allocations for workers' compensation and general liability expense within the operating segments that differ from our actual expense recorded for U.S. GAAP. Segment amounts disclosed are prior to any elimination entries made in consolidation.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (in thousands) | |
| **Revenues** | | |
| Housekeeping services | $ 243,423 | $ 238,279 |
| Dietary services | 161,067 | 146,528 |
| Total | $ 404,490 | $ 384,807 |
| | | |
| **Income before income taxes** | | |
| Housekeeping services | $ 23,202 | $ 22,500 |
| Dietary services | 10,225 | 9,148 |
| Corporate and eliminations (1) | (1,148) | (2,044) |
| Total | $ 32,279 | $ 29,604 |

(1) Primarily represents corporate office costs and related overhead, recording of certain inventories and supplies and workers compensation costs at the reportable segment level which use accounting methods that differ from those used at the corporate level, as well as consolidated subsidiaries' operating expenses that are not allocated to the reportable segments, net of investment and interest income.

**Note 11— Earnings Per Common Share**

Basic and diluted earnings per common share are computed by dividing net income by the weighted-average number of basic and diluted common shares outstanding, respectively. The weighted-average number of diluted common shares includes the impact of dilutive securities, including unvested, unexercised stock options and unvested restricted stock and restricted stock units. The table below reconciles the weighted-average basic and diluted common shares outstanding:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (in thousands) | |
| Weighted average number of common shares outstanding - basic | 73,074 | 72,364 |
| Effect of dilutive securities (1) | 872 | 650 |
| Weighted average number of common shares outstanding - diluted | 73,946 | 73,014 |

(1) Certain outstanding stock option awards are anti-dilutive and were therefore excluded from the calculation of the weighted average number of diluted common shares outstanding. During the three months ended March 31, 2017 , options to purchase 0.5 million shares having a weighted average exercise price of $39.38 per share were excluded. During the three months ended March 31, 2016 , options to purchase 1.0 million shares having a weighted average exercise price of $32.45 per share were excluded.

**Note 12— Other Contingencies**

**Line of Credit**

We have a $200 million bank line of credit on which we may draw to meet short-term liquidity requirements. Amounts drawn under the line of credit are payable upon demand. At March 31, 2017 , there were no borrowings under the line of credit. At March 31, 2017 , we also had outstanding a $67.2 million irrevocable standby letter of credit, which relates to payment obligations under our insurance programs. In connection with the issuance of the letter of credit, the amount available under the line of credit was reduced by $67.2 million to $132.8 million at March 31, 2017 . The letter of credit was increased to $70.7 million on April 3, 2017 . The line of credit requires us to satisfy one financial covenant. We are in compliance with our financial covenant at March 31, 2017 and expect to remain in compliance with such financial covenant. The line of credit expires on December 18, 2018 .

**Tax Jurisdictions and Matters**

We provide our services throughout the continental United States and are subject to numerous local taxing jurisdictions within those states. In the ordinary course of business, a jurisdiction may contest our reporting positions with respect to the application of its tax code to our services. A jurisdiction's conflicting position on the taxability of our services could result in additional tax liabilities.

We have tax matters with various taxing authorities. Because of the uncertainties related to both the probable outcomes and amount of probable assessments due, we are unable to make a reasonable estimate of a liability. We do not expect the resolution of any of these matters, taken individually or in the aggregate, to have a material adverse effect on our consolidated financial position or results of operations based on our best estimate of the outcomes of such matters.

**Legal Proceedings**

We are subject to various claims and legal actions in the ordinary course of business. Some of these matters include payroll and employee-related matters and examinations by governmental agencies. As we become aware of such claims and legal actions, we record accruals for any exposures that are probable and estimable. If adverse outcomes of such claims and legal actions are reasonably possible, we assess materiality and provide such financial disclosure, as appropriate. The Company believes it is not a party to, nor are any of its properties the subject of, any pending legal proceeding or governmental examination that would have a material adverse effect on the Company's consolidated financial condition or liquidity.

**Government Regulations**

Our clients are concentrated in the health care industry and are primarily providers of long-term care. Many of our clients' revenues are highly reliant on Medicare, Medicaid and third party payors' reimbursement funding rates. New legislation or additional changes in existing regulations could be made which could directly impact the governmental reimbursement programs in which our clients participate. As a result, we may not know the full effects of such programs until these laws are fully implemented and government agencies issue applicable regulations or guidance.

**Note 13—Subsequent Events**

The Company has entered into new service agreements with expected annualized revenues of over $160 million , to begin during the second quarter of 2017. The recent expansion consists of multiple customer groups including one national, multi-state provider, with whom the Company has an existing contractual relationship, that makes up a substantial portion of the aforementioned growth. In conjunction with said customer expansion, the Company acquired certain dietary-related assets, including inventory, and intellectual property.

We evaluated all subsequent events through the filing date of this Form 10-Q. We believe there were no other events or transactions occurring during this subsequent reporting period which require recognition or additional disclosure in these financial statements.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Results of Operations**

The following discussion is intended to provide the reader with information that will be helpful in understanding our financial statements, including the changes in certain key items in comparing financial statements period to period. We also intend to provide the primary factors that accounted for those changes, as well as a summary of how certain accounting principles affect our financial statements. In addition, we are providing information about the financial results of our two operating segments to further assist in understanding how these segments and their results affect our consolidated results of operations. This discussion should be read in conjunction with our financial statements as of March 31, 2017 and December 31, 2016 and the notes accompanying those financial statements.

***Overview***

We provide management, administrative and operating expertise and services to the housekeeping, laundry, linen, facility maintenance and dietary service departments of the health care industry, including nursing homes, retirement complexes, rehabilitation centers and hospitals located throughout the United States. We believe we are the largest provider of housekeeping and laundry management services to the long-term care industry in the United States, rendering such services to over 3,500 facilities throughout the continental United States as of March 31, 2017 . Although we do not directly participate in any government reimbursement programs, our clients' reimbursements are subject to government regulation. Therefore, our clients are directly affected by any legislation relating to Medicare and Medicaid reimbursement programs.

We provide our services primarily pursuant to full service agreements with our clients. In such agreements, we are responsible for the management of the department serviced, employing Housekeeping or Dietary personnel located at our clients' facilities and providing certain supplies. We also provide services on the basis of management-only agreements for a limited number of clients. Our agreements with clients typically provide for renewable one year service terms, cancelable by either party upon 30 to 90 days' notice after the initial period of 60 to 120 days.

We are organized into two reportable segments; housekeeping, laundry, linen and other services ("Housekeeping"), and dietary department services ("Dietary").

Housekeeping consists of managing the client's housekeeping department which is principally responsible for the cleaning, disinfecting and sanitizing of resident rooms and common areas of a client's facility, as well as laundering and processing of the bed linens, uniforms, resident personal clothing and other assorted linen items utilized at a client facility.

Dietary consists of managing the client's dietary department which is principally responsible for food purchasing, meal preparation and providing dietitian professional services, which includes the development of menus that meet residents' dietary needs.

At March 31, 2017 , Housekeeping services were provided at essentially all of our more than 3,500 client facilities, generating approximately 60.2% or $243.4 million of total revenues for the three months ended March 31, 2017 . Dietary services were provided to over 1,000 client facilities at March 31, 2017 and contributed approximately 39.8% or $161.1 million of total revenues for the three months ended March 31, 2017 .

Subject to the factors noted in the Cautionary Statement Regarding Forward Looking Statements included in this Quarterly Report on Form 10-Q, although there can be no assurance thereof, we expect our consolidated revenues for the remainder of 2017 to continue to improve compared to historical ranges. We expect that Dietary revenues will continue to grow as a percentage of consolidated revenue and such growth is expected to come from our current Housekeeping client base. Growth in Housekeeping is expected to primarily come from obtaining new clients. Furthermore, we expect the sources of organic growth for the remainder of 2017 for the respective operating segments to be primarily the same as historically experienced.

***Three Months Ended March 31, 2017 and 2016***

The following table sets forth the first quarter 2017 income statement key components that we use to evaluate our financial performance on a consolidated and reportable segment basis, compared to first quarter 2016 amounts. The differences between the reportable segments' operating results and other disclosed data and our consolidated financial statements relate primarily to corporate level transactions and recording of transactions at the reportable segment level which use methods other than generally accepted accounting principles.

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2017 | 2016 | % Change |
| | (in thousands) | | |
| **Revenues** | | | |
| Housekeeping services | $ 243,423 | $ 238,279 | 2.2 % |
| Dietary services | 161,067 | 146,528 | 9.9 % |
| Consolidated | $ 404,490 | $ 384,807 | 5.1 % |
| | | | |
| **Costs of Services Provided** | | | |
| Housekeeping services | $ 220,221 | $ 215,779 | 2.1 % |
| Dietary services | 150,842 | 137,380 | 9.8 % |
| Corporate and eliminations | (25,493) | (23,115) | 10.3 % |
| Consolidated | $ 345,570 | $ 330,044 | 4.7 % |
| | | | |
| **Selling, general and administrative expense** | | | |
| Corporate and eliminations | $ 28,210 | $ 25,346 | 11.3 % |
| | | | |
| **Investment and interest income** | | | |
| Corporate and eliminations | $ 1,569 | $ 187 | 739.0 % |
| | | | |
| **Income (loss) before income taxes** | | | |
| Housekeeping services | $ 23,202 | $ 22,500 | 3.1 % |
| Dietary services | 10,225 | 9,148 | 11.8 % |
| Corporate and eliminations | (1,148) | (2,044) | (43.8)% |
| Consolidated | $ 32,279 | $ 29,604 | 9.0 % |

Housekeeping, our largest and core reportable segment, represented approximately 60.2% of consolidated revenues for the first quarter 2017 . Dietary revenues represented approximately 39.8% of consolidated revenues for the first quarter 2017 .

The following table sets forth the ratio which certain items bear to consolidated revenues:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Revenues | 100.0% | 100.0% |
| Operating costs and expenses: | | |
| Costs of services provided | 85.4% | 85.8% |
| Selling, general and administrative expense | 7.0% | 6.6% |
| Investment and interest income | 0.4% | 0.0% |
| Income before income taxes | 8.0% | 7.6% |
| Income taxes | 2.5% | 2.9% |
| Net income | 5.5% | 4.7% |

Revenues

*Consolidated*

Consolidated revenues increased 5.1% to $404.5 million in the first quarter 2017 compared to $384.8 million in the first quarter 2016 , as a result of the factors discussed below under Reportable Segments.

*Reportable Segments*

Housekeeping’s 2.2% net growth in reportable segment revenues resulted from service agreements entered into with new clients.

Dietary’s 9.9% net growth in reportable segment revenues resulted primarily from providing this service to a greater number of existing Housekeeping clients.

Costs of Services Provided

*Consolidated*

Consolidated costs of services increased 4.7% to $345.6 million in the first quarter 2017 compared to $330.0 million in the first quarter 2016 . The increase in costs of services is a direct result of growth in our consolidated revenues. Certain significant components within our costs of services are subject to fluctuation with the changes in our business and client base. The increase during 2017 compared to 2016 relates primarily to labor and other labor related costs. Historically, labor and other labor related costs, as well as self insurance costs, accounted for approximately 96% to 98% of consolidated costs of services.

As a percentage of consolidated revenues, cost of services decreased to 85.4% in the first quarter 2017 from 85.8% in the first quarter 2016 . The following table provides a comparison of the key indicators we consider when managing the consolidated cost of services provided:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **Costs of Services Provided-Key Indicators as a % of Consolidated Revenue** | **2017** | **2016** | **Change** |
| Bad debt provision | 0.3% | 0.3% | —% |
| Workers' compensation and general liability insurance | 2.6% | 3.1% | (0.5)% |

The decrease in workers' compensation and general liability insurance expense as a percentage of consolidated revenue is primarily the result of the Company's ongoing initiatives to promote safety and accident prevention in the workplace, as well as proactive management of workers' compensation claims, which positively impact our claims experience.

*Reportable Segments*

Cost of services provided for Housekeeping, as a percentage of Housekeeping revenues for the first quarter 2017 , decreased to 90.5% from 90.6% in the first quarter 2016 . Cost of services provided for Dietary, as a percentage of Dietary revenues for the first quarter 2017 , decreased to 93.7% from 93.8% in the first quarter 2016 .

The following table provides a comparison of the key indicators we consider when managing cost of services at the segment level, as a percentage of the respective segment's revenues:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **Costs of Services Provided-Key Indicators as a % of Segment Revenue** | **2017** | **2016** | **Change** |
| Housekeeping labor and other labor costs | 80.1% | 79.5% | 0.6% |
| Housekeeping supplies | 8.0% | 7.9% | 0.1% |
| Dietary labor and other labor costs | 54.3% | 52.8% | 1.5% |
| Dietary supplies | 37.1% | 38.0% | (0.9)% |

The ratios of these key indicators to revenue remain relatively consistent. Variations relate to the provision of services at new facilities and changes in the mix of clients for whom we provide supplies or do not provide supplies. Management focuses on building efficiencies and managing labor and other costs at the facility level, as well as managing supply chain costs, for new and existing facilities.

Selling, General and Administrative Expense

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | **2017** | **2016** | **$ Change** | **% Change** |
| | | (in thousands) | | |
| Selling, general and administrative expense excluding deferred compensation change (1) | $ 27,049 | $ 25,674 | $ 1,375 | 5.4 % |
| Gain / (loss) on deferred compensation plan investments (2) | 1,161 | (328) | 1,489 | (454.0)% |
| Selling, general and administrative expense | $ 28,210 | $ 25,346 | $ 2,864 | 11.3 % |

(1)Selling, general and administrative expense excluding the change in the market value of the deferred compensation fund.

(2)Gains on the deferred compensation plan investments are reflected as increases to selling, general and administrative expense, as such gains also increase the amount of the deferred compensation liability. Losses on the deferred compensation plan investments are reflected as decreases to selling, general and administrative expense, as such losses also decrease the amount of the deferred compensation liability.

Excluding the change in the deferred compensation plan, consolidated selling, general and administrative expense increased $1.4 million or 5.4% compared to the first quarter 2016 , related primarily to growth. The increase in selling, general and administrative expense related to the deferred compensation plan is a result of gains on the plan investments that increased the value of our deferred compensation liability.

Consolidated Investment and Interest Income

Investment and interest income, as a percentage of consolidated revenues, increased to 0.4% for the three months ended March 31, 2017 compared to the corresponding 2016 period, primarily due to favorable market fluctuations in the value of our investments.

Consolidated Income Taxes

For the first quarter 2017 , our effective tax rate was 31.8% , versus 37.1% for the same period in 2016 . In the first quarter 2017, the Company adopted ASU 2016-09, under which excess tax benefits related to share-based payments were recognized as a component of income tax expense, as opposed to additional paid-in capital, resulting in a decrease in the first quarter 2017 income tax expense. Differences between the effective tax rate and the applicable U.S. federal statutory rate generally arise primarily from the effect of state and local income taxes, share-based compensation and tax credits available to the Company.

**Liquidity and Capital Resources**

Cash generated through operations is our primary source of liquidity. At March 31, 2017 , we had cash, cash equivalents and marketable securities of $116.5 million and working capital of $334.1 million , compared to December 31, 2016 cash, cash equivalents and marketable securities of $91.6 million and working capital of $313.8 million . The increase in working capital is driven by the timing of payments and cash receipts as of March 31, 2017 as compared with December 31, 2016 . As of March 31, 2017 , we had an unused line of credit of $132.8 million . Our current ratio was 3.8 to 1 at March 31, 2017 versus 4.1 to 1 at December 31, 2016 .

For the three months ended March 31, 2017 and the three months ended March 31, 2016 , our cash flows were as follows:

| | March 31, 2017 | | March 31, 2016 | |
|---|---|---|---|---|
| | (in thousands) | | | |
| Net cash provided by operating activities | $ | 34,646 | $ | 9,689 |
| Net cash used in investing activities | $ | (1,356) | $ | (3,671) |
| Net cash used in financing activities | $ | (8,913) | $ | (10,087) |

***Operating Activities***

Our primary sources of cash from operating activities are the revenues generated from our Housekeeping and Dietary services. Our primary uses of cash for operating activities are the funding of our payroll and other personnel-related costs, as well as the costs of supplies used in providing our services. The timing of cash receipts and cash payments are the primary drivers of the period-over-period changes in net cash provided by operating activities.

***Investing Activities***

The principal uses of cash for investing activities are the purchases of marketable securities and capital expenditures such as those for housekeeping and food service equipment, computer software and equipment, and furniture and fixtures (see “Capital Expenditures” below for additional information). Such uses of cash are partially offset by proceeds from sales of marketable securities.

Our investments in marketable securities are primarily comprised of tax-exempt municipal bonds and are intended to achieve our goal of preserving principal, maintaining adequate liquidity and maximizing returns subject to our investment guidelines. Our investment policy limits investment to certain types of instruments issued by institutions primarily with investment-grade ratings and places restrictions on concentration by type and issuer.

***Financing Activities***

The primary use of cash for financing activities is the payment of dividends. We have paid regular quarterly cash dividends since the second quarter of 2003. During 2017 , we paid to shareholders regular quarterly cash dividends totaling $13.6 million as follows.

| | March 31, 2017 | |
|---|---|---|
| | (in thousands, except per share data) | |
| Cash dividends paid per common share | $ | 0.18625 |
| Total cash dividends paid | $ | 13,624 |
| Record date | | February 17, 2017 |
| Payment date | | March 24, 2017 |

The dividends paid to shareholders during the three months ended March 31, 2017 were funded by the existing cash, cash equivalents and marketable securities held by the Company. Our Board of Directors reviews our dividend policy on a quarterly basis. Although there can be no assurance that we will continue to pay dividends or the amount of the dividend, we expect to continue to pay a regular quarterly cash dividend. Partially offsetting the cash used to pay dividends are the proceeds received from the exercise of stock options by employees and directors.

***Line of Credit***

We have a $200 million bank line of credit on which we may draw to meet short-term liquidity requirements. Amounts drawn under the line of credit are payable upon demand. At March 31, 2017 , there were no borrowings under the line of credit. At March 31, 2017 , we also had outstanding a $67.2 million irrevocable standby letter of credit, which relates to payment obligations under our insurance programs. In connection with the issuance of the letter of credit, the amount available under the line of credit was reduced by $67.2 million to $132.8 million at March 31, 2017 . The letter of credit was increased to $70.7 million on April 3, 2017 .

The line of credit requires us to satisfy one financial covenant. The covenant and its respective status at March 31, 2017 was as follows:

| **Covenant Description and Requirement** | **As of March 31, 2017** |
|---|---|
| Funded debt (1) to EBITDA (2) ratio: less than 3.00 to 1.00 | 0.51 |

(1) All indebtedness for borrowed money, including but not limited to, capitalized lease obligations, reimbursement obligations in respect of letters of credit and guaranties of any such indebtedness.

(2) Net income plus interest expense, income tax expense, depreciation, amortization and extraordinary non-recurring losses/gains.

As noted above, we were in compliance with our financial covenant at March 31, 2017 and we expect to remain in compliance. The line of credit expires on December 18, 2018.

***Accounts and Notes Receivable***

We expend considerable effort to collect the amounts due for our services on the terms agreed upon with our clients. Many of our clients participate in programs funded by federal and state governmental agencies which historically have encountered delays in making payments to their program participants. Whenever possible, when a client falls behind in making agreed-upon payments to us, we convert 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 our ability to collect the amounts due. At March 31, 2017 and December 31, 2016 , we had $18.4 million and $19.2 million , net of reserves, respectively, of such promissory notes outstanding. Additionally, we consider restructuring service agreements from full service to management-only service in the case of certain clients experiencing financial difficulties. We believe that such restructurings may provide us with a means to maintain a relationship with the client while at the same time minimizing collection exposure.

We have had varying collections experience with respect to our accounts and notes receivable. When contractual terms are not met, we generally encounter difficulty in collecting amounts due from certain of our clients. Therefore, we have sometimes been required to extend the period of payment for certain clients beyond contractual terms. These clients include 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, we have recorded bad debt provisions (in an Allowance for Doubtful Accounts) of $1.1 million for the three months ended March 31, 2017 and 2016 . As a percentage of total revenues, these provisions represent approximately 0.3% for both periods. In making our credit evaluations, in addition to analyzing and anticipating, where possible, the specific cases described above, we consider the general collection risk associated with trends in the long-term care industry. We also establish credit limits, perform ongoing credit evaluation and monitor accounts to minimize the risk of loss. Notwithstanding our efforts to minimize credit risk exposure, our clients could be adversely affected if future industry trends change in such a manner as to negatively impact their cash flows. If our clients experience a negative impact in their cash flows, it would have a material adverse effect on our results of operations and financial condition.

***Capital Expenditures***

The level of capital expenditures is generally dependent on the number of new clients obtained. Such capital expenditures primarily consist of housekeeping and food service equipment purchases, laundry and linen equipment installations, computer hardware and software, and furniture and fixtures. Although we have no specific material commitments for capital expenditures through the end of calendar year 2017 , we estimate that for 2017 we will have capital expenditures of approximately $4.5 million to $6.0 million . We believe that our cash from operations, existing cash and cash equivalents balance and credit line will be adequate for the foreseeable future to satisfy the needs of our operations and to fund our anticipated growth. However, should these sources not be sufficient, we would seek to obtain necessary capital from such sources as long-term debt or equity financing.

**Material Off-Balance Sheet Arrangements**

We have no material off-balance sheet arrangements, other than our irrevocable standby letter of credit previously discussed.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

At March 31, 2017 , we had $116.5 million in cash, cash equivalents and marketable securities. The fair values of all of our cash equivalents and marketable securities is determined based on “Level 1” or “Level 2” inputs, which are based upon quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. We place our cash investments in instruments that meet credit quality standards, as specified in our investment policy guidelines.

Investments in both fixed-rate and floating-rate investments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to an increase in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if there is a decline in the fair value of our investments.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are intended to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 (the “Exchange Act”), such as this Form 10-Q, is reported in accordance with Securities and Exchange Commission rules. Disclosure controls are also intended to ensure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on their evaluation as of March 31, 2017 , pursuant to Exchange Act Rule 13a-15(b), our management, including our Chief Executive Officer and Chief Financial Officer, believe our disclosure controls and procedures (as defined in Exchange Act 13a-15(e)) are effective.

**Changes in Internal Controls over Financial Reporting**

In connection with the evaluation pursuant to Exchange Act Rule 13a-15(d) of our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) by our management, including our Chief Executive Officer and Chief Financial Officer, no changes during the quarter ended March 31, 2017 were identified that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Certifications**

Certifications of the Principal Executive Officer and Principal Financial and Accounting Officer regarding, among other items, disclosure controls and procedures are included as exhibits to this Form 10-Q.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

In the normal course of business, the Company is involved in various administrative and legal proceedings, including labor and employment, contracts, personal injury, and insurance matters. The Company believes it is not a party to, nor are any of its properties the subject of, any pending legal proceeding or governmental examination that would have a material adverse effect on the Company's consolidated financial condition or liquidity. However, in light of the uncertainties involved in such proceedings, the ultimate outcome of a particular matter could become material to the Company's results of operations for a particular period depending on, among other factors, the size of the loss or liability imposed and the level of the Company's operating income for that period.

### Item 1A. Risk Factors

There has been no material change in the risk factors set forth in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 .

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

### Item 3. Defaults Upon Senior Securities

Not applicable.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

Not applicable.

### Item 6. Exhibits

The following exhibits are filed as part of this Report:

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act |
| 32.1 | Certification of the Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act |
| 101 | The following financial information from the Company's Form 10-Q for the quarterly period ended March 31, 2017 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statement of Stockholders' Equity, and (v) Notes to Consolidated Financial Statements |

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant had duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**HEALTHCARE SERVICES GROUP, INC.**

| | |
|---|---|
| Date: April 28, 2017 | /s/ Theodore Wahl |
| | Theodore Wahl<br>*President & Chief Executive Officer*<br>(Principal Executive Officer) |
| Date: April 28, 2017 | /s/ John C. Shea |
| | John C. Shea<br>*Chief Financial Officer*<br>(Principal Financial and Accounting Officer) |

Exhibit 31.1

**Certification of the Chief Executive Officer**
**Pursuant to Rules 13a-14(a) and 15d-14(a)**
**Under the Securities Exchange Act, as Amended**

I, Theodore Wahl, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Healthcare Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 28, 2017

/s/ Theodore Wahl
Theodore Wahl
President & Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**Certification of the Chief Financial Officer**
**Pursuant to Rules 13a-14(a) and 15d-14(a)**
**Under the Securities Exchange Act, as Amended**

I, John C. Shea, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Healthcare Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2017

/s/ John C. Shea

John C. Shea
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

**Certification Pursuant to**
**18 U.S.C. Section 1350,**
**As Adopted Pursuant to**
**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Healthcare Services Group, Inc. (the "Company") for the quarter ended March 31, 2017 as filed with the Securities and Exchange commission on the date hereof (the "Form 10-Q"), Theodore Wahl, the Chief Executive Officer of the Company, and John C. Shea, the Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d), of the Securities Exchange Act of 1934, as amended; and

(2) That information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| /s/ Theodore Wahl | /s/ John C. Shea |
| Theodore Wahl | John C. Shea |
| President & Chief Executive Officer | Chief Financial Officer |
| (Principal Executive Officer) | (Principal Financial and Accounting Officer) |
| April 28, 2017 | April 28, 2017 |