

HEALTHCARE SERVICES GROUP INC

Form DEF 14A

April 07, 2008

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

**SCHEDULE 14A**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

**HEALTHCARE SERVICES GROUP, INC.**  
(Name of Registrant as Specified in Its Charter)

(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials:
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid

(2) Form, Schedule or Registration Statement No:

(3) Filing Party:

(4) Date Filed:

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**HEALTHCARE SERVICES GROUP, INC.**  
**3220 Tillman Drive**  
**Suite 300**  
**Bensalem, Pennsylvania 19020**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**May 20, 2008**

To the Shareholders of  
Healthcare Services Group, Inc.

Notice IS Hereby Given that the Annual Meeting (the Annual Meeting ) of Shareholders of Healthcare Services Group, Inc. (the Company ) will be held at the Radisson Hotel Philadelphia Northeast, 2400 Old Lincoln Highway, Trevose, Pennsylvania 19053, on May 20, 2008, at 10:00 A.M., for the following purposes:

1. To elect eight directors;
2. To approve and ratify the selection of Grant Thornton LLP as the independent registered public accounting firm of the Company for its current fiscal year ending December 31, 2008; and
3. To consider and act upon such other business as may properly come before the Meeting and any adjournment or postponement.

Only shareholders of record at the close of business on April 4, 2008 will be entitled to notice of and to vote at the Annual Meeting.

**Important Notice Regarding the Availability of  
Proxy Materials for the Stockholders  
meeting to be Held on May 20, 2008**

The proxy statement and annual report to shareholders are available under 2008 Proxy Materials at [www.proxydocs.com/hcsg](http://www.proxydocs.com/hcsg)

**Please sign and promptly mail the enclosed proxy, whether or not you expect to attend the Meeting, in order that your shares may be voted for you. A return envelope is provided for your convenience.**

By Order of the Board of Directors

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

Dated: Bensalem, Pennsylvania  
April 7, 2008



**HEALTHCARE SERVICES GROUP, INC.**  
**3220 Tillman Drive**  
**Suite 300**  
**Bensalem, Pennsylvania 19020**

PROXY STATEMENT  
FOR  
ANNUAL MEETING OF SHAREHOLDERS  
May 20, 2008

This Proxy Statement is furnished to the Shareholders of Healthcare Services Group, Inc. (the Company) in connection with the solicitation by the Board of Directors of the Company of proxies for the Annual Meeting of Shareholders (the Annual Meeting) to be held at the Radisson Hotel Philadelphia Northeast, 2400 Old Lincoln Highway, Trevese, Pennsylvania 19053, on May 20, 2008 at 10:00 A.M. At the Annual Meeting, the shareholders will consider the following proposals: (1) to elect eight directors; (2) to approve and ratify the selection of Grant Thornton LLP as the independent registered public accounting firm (the Independent Auditors) of the Company for its current fiscal year ending December 31, 2008; and (3) to consider and act upon such other business as may properly come before the Annual Meeting and any adjournment or postponement.

This Proxy Statement is being mailed to shareholders on or about April 7, 2008.

**PROXIES; VOTING SECURITIES**

Only holders of Common Stock of record at the close of business on April 4, 2008 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. On the Record Date, there were issued and outstanding approximately 43,200,000 shares of Common Stock. Each share of Common Stock entitles the holder thereof to one vote. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock is required to constitute a quorum at the meeting. Holders of Common Stock are not entitled to cumulative voting rights.

All shares that are represented by properly executed proxies received prior to or at the Annual Meeting, and not revoked, will be voted in accordance with the instructions indicated in such proxies. If no instructions are indicated with respect to any shares for which properly executed proxies are received, such proxies will be voted FOR each of the proposals. For purposes of determining the presence of a quorum for transacting business at the Annual Meeting, abstentions and broker non-votes (i.e., proxies from brokers or nominees indicating that such persons have not received instructions from the beneficial owner or other persons entitled to vote shares on a particular matter with respect to which the brokers or nominees do not have discretionary power), if applicable, will be treated as shares that are present but which have not been voted.

A proxy may be revoked by delivery of a written statement to the Secretary of the Company stating that the proxy is revoked, by a subsequent proxy executed by the person executing the prior proxy and presented to the Annual Meeting, or by voting in person at the Annual Meeting.

All expenses in connection with this solicitation will be borne by the Company. It is expected that solicitation will be made primarily by mail, but regular employees or representatives of the Company may also solicit proxies by

telephone, telegraph or in person, without additional compensation, except for reimbursement of out-of-pocket expenses.

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## CORPORATE GOVERNANCE

The Company operates within a comprehensive plan of corporate governance for the purpose of defining responsibilities, setting high standards of professional and personal conduct and assuring compliance with such responsibilities and standards. The Company regularly monitors developments in the area of corporate governance. In July 2002, Congress passed the Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ) which, among other things, establishes, or provides the basis for, a number of new corporate governance standards and disclosure requirements. In addition, the NASDAQ Stock Market, LLC has recently finalized changes to its corporate governance and listing requirements.

### Director Independence

In accordance with these latest developments and the listing requirements of the NASDAQ Stock Market, LLC, a majority of the current members of the Company's Board of Directors are independent: namely, John M. Briggs, Robert L. Frome, Robert J. Moss, Barton D. Weisman and Dino D. Ottaviano.

Mr. Barton D. Weisman, a director of the Company, has an ownership interest in ten nursing homes that have entered into service agreements with the Company. During the year ended December 31, 2007, these agreements resulted in gross revenues of approximately \$3,440,000 to the Company (less than 1% of the Company's total revenues). Management believes that the terms of each of the transactions with the nursing homes described herein are comparable to those available to unaffiliated third parties.

Mr. Robert L. Frome, a director of the Company, is a member of the law firm of Olshan Grundman Frome Rosenzweig & Wolosky, LLP, which law firm has been retained by the Company during the last fiscal year. Fees paid by the Company to such firm during the year ended December 31, 2007 were less than \$100,000. Additionally, the fees paid by the Company did not exceed 5% of such firm's total revenues.

Notwithstanding the above mentioned transactions, both Mr. Frome and Mr. Weisman are independent directors as such term is defined by NASDAQ Rule 4200(a)(15) of the NASDAQ Stock Market, LLC listing standards.

### Code of Ethics and Business Conduct

We have also adopted a Code of Ethics and Business Conduct for directors, officers and employees of the Company. It is intended to promote honest and ethical conduct, full and accurate reporting and compliance with laws as well as other matters. A copy of the Code of Ethics and Business Conduct is posted on our website at [www.hcsgcorp.com](http://www.hcsgcorp.com).



**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

At the Annual Meeting, eight directors of the Company are to be elected, each to hold office for a term of one year. Unless authority is specifically withheld, management proxies will be voted FOR the election of the nominees named below to serve as directors until the next annual meeting of shareholders and until their successors have been chosen and qualify. Should any nominee not be a candidate at the time of the Annual Meeting (a situation which is not now anticipated), proxies will be voted in favor of the remaining nominees and may also be voted for substitute nominees. If a quorum is present, the candidate or candidates receiving the highest number of votes will be elected. Brokers that do not receive instructions are entitled to vote for the election of directors.

The nominees are as follows:

<b>Name, Age, Principal Occupations for the past five years and Current Public Directorships or Trusteeships</b>	<b>Director Since</b>
Daniel P. McCartney, 56, Chief Executive Officer and Chairman of the Board of the Company for more than five years.	1977
Barton D. Weisman, 80, Chairman of the Board of NuVision Management, LLC (successor company to H.B.A. Corporation and H.B.A. Management, Inc.) since 2002; President and Chief Executive Officer of several affiliated companies, which own and/or manage nursing homes, for more than five years.	1983(2)
Joseph F. McCartney, 53, Divisional Vice President of the Company for more than five years; brother of Daniel P. McCartney.	1983
Robert L. Frome, Esq., 70, Member of the law firm of Olshan Grundman Frome Rosenzweig & Wolosky LLP for more than five years; Director of NuCo2, Inc., a national provider of bulk CO2 products and services to the U.S. fountain beverage industry.	1983
Thomas A. Cook, 62, President and Chief Operating Officer of the Company for more than five years.	1987
Robert J. Moss, Esq., 70, Former President of Moss Associates, a law firm, for more than four years. Mr. Moss served as a Court Officer of First Judicial District of Pennsylvania from 2006 to 2007.	1992(1)(2)
John M. Briggs, CPA, 57, Treasurer, Philadelphia Affiliate of Susan G. Komen for the Cure since February, 2005; formerly Partner of Briggs, Bunting & Dougherty, LLP, a registered public accounting firm for more than five years. Board member of the Capstone Group of Regulated Investment Funds.	1993(1)(2)
Dino D. Ottaviano, 60, Principal of D20 Marketing, Inc., a provider of internet productivity tools founded in 2006. Previously employed for 23 years with Transcontinental Direct (successor to Communication Concepts, Inc.), a publicly held outsourcing printer, retiring in 2002 as Vice President of Business Development.	2007

(1) Member of Nominating, Compensation and Stock Option Committee.

(2) Member of Audit Committee.

**The Directors recommend a vote FOR all nominees.**

**OTHER EXECUTIVE OFFICERS**

**Name, Age, Principal Occupations  
for the past five years and Current  
Public Directorships or Trusteeships**

Richard W. Hudson, 60, Chief Financial Officer since March 2007 and Secretary for more than five years. Prior to becoming Chief Financial Officer, Mr. Hudson served as Vice President of Finance for more than four years.

## BOARD OF DIRECTORS AND COMMITTEES

**BOARD OF DIRECTORS.** The business of the Company is managed under the direction of the Board of Directors (the Board). The Board meets on a regularly scheduled basis during the Company's fiscal year to review significant developments affecting the Company and to act on matters requiring Board approval. It also holds special meetings when an important matter requires Board action between scheduled meetings. The Board met six times during the 2007 fiscal year. During 2007, each member of the Board participated in at least 75% of all Board and applicable committee meetings held during the period for which he was a director or committee member. Directors are expected to attend all Board meetings and meetings of committees on which they serve, and each Annual Meeting. In 2007, all eight of the directors attended the Company's Annual Meeting.

The Board has established an Audit Committee, and a Nominating, Compensation and Stock Option Committee to devote attention to specific subjects and to assist it in the discharge of its responsibilities. The functions of those committees, their current members and the number of meetings held during 2007 with respect to the Audit Committee, and the Nominating, Compensation and Stock Option Committee are described below:

**AUDIT COMMITTEE.** The Audit Committee's primary responsibilities, as described in the Amended and Restated Audit Committee Charter (a copy of which is available on the Company's website, [www.hcsgcorp.com](http://www.hcsgcorp.com)) include:

- (a) appointment, compensation and oversight of the Company's Independent Auditors, who report directly to the Audit Committee, including (i) prior review of the Independent Auditor's plan for the annual audit, (ii) pre-approval of both audit and non-audit services to be provided by the Independent Auditors and (iii) annual assessment of the qualifications, performance and independence of the Independent Auditors;
- (b) overseeing and monitoring the Company's accounting and financial reporting processes and internal control system, audits of the Company's financial statements and the quality and integrity of the financial reports and other financial information issued by the Company;
- (c) providing an open avenue of communication among the Independent Auditors and financial and other senior management and the Board;
- (d) reviewing with management and, where applicable, the Independent Auditors, prior to release, required annual, quarterly and interim filings by the Company with the Securities and Exchange Commission and the type and presentation of information to be included in earnings press releases;
- (e) reviewing material issues, and any analyses by management or the Independent Auditors, concerning accounting principles, financial statement presentation, the adequacy of the Company's internal controls and significant financial reporting issues and judgments and the effect of regulatory and accounting initiatives on the Company's financial statements;
- (f) reviewing with the Company's legal counsel any legal matters that could have a significant effect on the Company's financial statements, compliance with applicable laws and regulations and inquiries from regulators or other governmental agencies;
- (g) reviewing and approving all related party transactions between the Company and any director, executive officer, other employee or family member;
- (h) reviewing and overseeing compliance with the Company's Code of Ethics and Business Conduct;

(i) establishing procedures regarding the receipt, retention and treatment of, and the anonymous submission by employees of the Company of, complaints regarding the Company's accounting, internal controls or auditing matters; and

(j) reporting Audit Committee activities to the full Board of Directors and issuing annual reports to be included in the Company's proxy statement. Each of Messrs. Moss, Weisman and Briggs are independent Directors as such term is defined by Rule 4200(a)(15) of the NASDAQ Stock Market, LLC listing standards.

Mr. Briggs has been designated the audit committee financial expert and he satisfies the attributes required of audit committee financial experts pursuant to Section 407 of Sarbanes-Oxley. The Audit Committee met six

times during 2007. The report of Audit Committee for the fiscal year ended December 31, 2007 is included herein under "Audit Committee Report" below.

**NOMINATING, COMPENSATION AND STOCK OPTION COMMITTEE.** The Nominating, Compensation and Stock Option Committee (composed of Messrs. Briggs & Moss) are to assist the Board by:

- (a) developing and recommending to the Board a set of effective corporate governance policies and procedures applicable to the Company;
- (b) identifying, reviewing and evaluating individuals qualified to become Board members and recommending that the Board select director nominees for each annual meeting of the Company's shareholders;
- (c) discharging the Board's responsibilities relating to the compensation of Company executives; and
- (d) administering the Company's stock option plans or other equity-based compensation plans.

Each of Messrs. Briggs and Moss are Independent Directors as such term is defined by Rule 4200(a)(15) of the NASDAQ Stock Market, LLC listing standards. The Nominating, Compensation and Stock Option Committee met once during 2007.

The Nominating, Compensation and Stock Option Committee has not adopted a policy or process by which shareholders may make recommendations to the Committee of candidates to be considered by this Committee for nomination for election as Directors. The Committee has determined that it is not appropriate to have such a policy because such recommendations may be informally submitted to and considered by the Committee under its Charter. Shareholders may make such recommendations by giving written notice to Healthcare Services Group, Inc., 3220 Tillman Drive, Suite 300, Bensalem, PA 1902, Attention: Corporate Secretary either by personal delivery or by United States mail, postage prepaid. The Charter of the Nominating, Compensation and Stock Option Committee is provided on the Company's website, [www.hcsgcorp.com](http://www.hcsgcorp.com). The Committee has not established a formal process for identifying and evaluating nominees for Director, although generally the Committee may use multiple sources for identifying and evaluating nominees for Director, including referrals from current Directors and shareholders. The Committee has identified certain qualifications it believes an individual should possess before it recommends such person as a nominee for election to the Board of Directors. The Committee believes that nominees for Director should possess the highest personal and professional ethics, integrity, values and judgment and be committed to representing the long-term interests of the Company's shareholders. The Committee seeks to ensure that the composition of the Board at all times adheres to the independence requirements of the NASDAQ Stock Market, LLC. and reflects a range of talents, skills, and expertise, particularly in the areas of management, leadership, and experience in the Company's and related industries, sufficient to provide sound and prudent guidance with respect to the operations and interests of the Company. See below for the Report of the Nominating, Compensation and Stock Option Committee regarding executive compensation.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information as of March 21, 2008, regarding the beneficial ownership of Common Stock by each person or group known by the Company to own: (i) 5% or more of the outstanding shares of Common Stock, (ii) each director of the Company, (iii) the Named Executive Officers as defined in Item 402(a)(3) of Regulation S-K and other Executive Officers and (iv) all current directors and executive officers of the Company as a group. The persons named in the table have sole voting and investment power with respect to all shares of Common Stock owned by them, unless otherwise noted.

<b>Name and Beneficial Owner or Group(1)(2)</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class(3)</b>
Neuberger Berman, LLC	5,215,400(4)	12.1%
Daniel P. McCartney	3,426,612(5)	7.7%
FMR, LLC	2,874,360(6)	6.7%
Advisory Research Inc.	2,665,299(7)	6.2%
Pequot Capital Management, Inc.	2,500,199(8)	5.8%
Wells Fargo & Co.	2,512,861(9)	5.8%
Barclays Global Investors, NA	2,171,885(10)	5.0%
Thomas A. Cook	210,316(11)	(20)
Barton D. Weisman	345,080(12)	(20)
James L. DiStefano	0	(19)
Joseph F. McCartney	154,111(13)	(20)
John M. Briggs	70,812(14)	(20)
Robert L. Frome	75,359(15)	(20)
Robert J. Moss	24,956(16)	(20)
Richard W. Hudson	33,162(17)	(20)
Dino M. Ottaviano	0	
Directors and Executive Officers as a group (9 persons)	4,340,410(18)	10.1%

(1) The address of all persons is c/o Healthcare Services Group, Inc., 3220 Tillman Drive, Suite 300, Bensalem, PA 19020.

(2) The address of Neuberger Berman, LLC is 605 Third Avenue, New York, NY 10158.

The address of FMR, LLC is 82 Devonshire Street, Boston, MA 02109

The address of Advisory Research, Inc. is 180 North Stetson Street, Suite 5500, Chicago, IL 60601

The address of Pequot Capital Management, Inc. is 500 Nyala Farm Road, Westport, CT 06880.

The address of Wells Fargo & Company is 420 Montgomery Street, San Francisco, CA 94104.

The address of Barclays Global Investors, NA is 45 Fremont Street, San Francisco, CA 94105

- (3) Based on 43,200,000 shares of Common Stock outstanding at March 21, 2008.
- (4) According to a Schedule 13G filed by Neuberger Berman, LLC, Neuberger Berman Inc., Neuberger Berman Management Inc. and Neuberger Berman Equity Funds on February 12, 2008. Such entities have, in the aggregate, beneficial ownership of 5,215,400 shares.
- (5) Includes incentive stock options to purchase 96,173 shares and nonqualified stock options to purchase 546,788 shares all currently exercisable, and 37,362 shares credited to Mr. McCartney's account (but unissued) in connection with the Company's Deferred Compensation Plan; also includes an aggregate of 50,402 shares held by Mr. McCartney's adult child who shares Mr. McCartney's household. Mr. McCartney disclaims beneficial ownership of these shares. Mr. McCartney may be deemed to be a parent of and deemed

to control the Company, as such terms are defined for purposes of the Securities Act of 1933, as amended, by virtue of his position as founder, director, Chief Executive Officer and a principal shareholder of the Company.

- (6) According to a Schedule 13G filed by FMR LLC dated February 13, 2008, it and Edward C. Johnson, III have, in the aggregate, beneficial ownership of 2,874,360 shares.
- (7) According to a Schedule 13G filed by Advisory Research Inc. dated February 14, 2008, it has sole dispositive power and sole voting power with respect to the 2,665,299 shares.
- (8) According to a Schedule 13G filed by Pequot Capital Management, Inc. dated February 13, 2008, it has sole dispositive power and sole voting power with respect to the 2,500,199 shares.
- (9) According to a Schedule 13G filed by Wells Fargo & Company dated January 23, 2008, it and Wells Capital Management Incorporated, Wells Fargo Funds Management, LLC and Wells Fargo Bank, National Association have, in the aggregate, beneficial ownership of 2,512,861 shares.
- (10) According to a Schedule 13G filed by Barclays Global Investors, NA dated January 10, 2008, it and Barclays Global Fund Advisors, Barclays Global Investors, Ltd, Barclays Global Investors Japan Trust and Banking Company Limited, Barclays Global Investors Japan Limited, Barclays Global Investors Canada Limited, Barclays Global Investors Australia Limited and Barclays Global Investors (Deutschland) AG have, in the aggregate, beneficial ownership of 2,171,885 shares.
- (11) Includes incentive stock options to purchase 36,322 shares and nonqualified stock options to purchase 141,808 shares all currently exercisable, and 1,791 shares credited to Mr. Cook's account (but unissued) in connection with the Company's Deferred Compensation Plan.
- (12) Includes nonqualified stock options to purchase 102,923 shares, all currently exercisable; also includes 120,000 shares that Mr. Weisman holds in a trust of which he and his wife serve as trustees. Mr. Weisman disclaims beneficial ownership of the shares held in trust.
- (13) Includes incentive stock options to purchase 36,322 shares and nonqualified stock options to purchase 42,006 shares, all currently exercisable, 7,376 shares credited to Mr. McCartney's account (but unissued) in connection with the Company's Deferred Compensation Plan and 1,920 shares held by Mr. McCartney's minor child.
- (14) Includes nonqualified stock options to purchase 39,906 shares, all currently exercisable.
- (15) Includes nonqualified stock options to purchase 65,234 shares, all currently exercisable.
- (16) Represents nonqualified stock options to purchase 24,956 shares, all currently exercisable.
- (17) Includes incentive stock options to purchase 9,779 shares and nonqualified stock options to purchase 19,274 shares, all currently exercisable, and 2,124 shares credited to Mr. Hudson's account (but unissued) in connection with the Company's Deferred Compensation Plan.
- (18) Includes 1,161,491 shares underlying options granted to this group. All options are currently exercisable; also includes 48,653 shares credited to the accounts of certain executive officers (but unissued) in connection with the Company's Deferred Compensation Plan.



(19) Mr. DiStefano retired on March 31, 2007.

(20) Less than 1% of the outstanding shares.

## MANAGEMENT COMPENSATION

### Compensation Discussion and Analysis

#### Compensation Objectives

We refer to our chief executive officer, the chief financial officer, and each of our other two most highly compensated executive officers as our named executive officers. For all named executive officers compensation is intended to be performance-based. Our Nominating, Compensation and Stock Option Committee believes that compensation paid to executive officers should be closely aligned with our performance on both a short-term and long-term basis to create value for shareholders, and that such compensation should assist us in attracting and retaining key executives critical to our long-term success.

In establishing compensation for executive officers, the following are the Nominating, Compensation and Stock Option Committee's objectives:

Attract and retain individuals of superior ability and managerial talent;

Ensure officer compensation is aligned with our corporate strategies, business objectives and the long-term interests of our shareholders; and

Enhance the officers' incentive to increase our stock price and maximize shareholder value, as well as promote retention of key people, by providing a portion of total compensation for management in the form of direct ownership in us through stock options and other compensatory stock-based plans.

To achieve these objectives, our overall compensation program aims to pay our named executive officers competitively, consistent with our success and their contribution to that success. To accomplish this we rely on programs that provide compensation in the form of both cash and equity. Although our Nominating, Compensation and Stock Option Committee has not adopted any formal guidelines for allocating total compensation between cash and equity, the Nominating, Compensation and Stock Option Committee considers the balance between providing short-term incentives and long-term parallel investment with shareholders to align the interests of management with shareholders.

We have not retained a compensation consultant to review our policies and procedures with respect to executive compensation, although the Nominating, Compensation and Stock Option Committee may elect to retain such a consultant in the future if it determines that so doing would be helpful in developing, implementing or maintaining compensation plans.

The Nominating, Compensation and Stock Option Committee conducts an annual review of the aggregate level of our executive compensation, as well as the mix of elements used to compensate our executive officers. In addition, the Nominating, Compensation and Stock Option Committee has historically taken into account input from other independent members of our board of directors and, to the extent available, publicly available data relating to the compensation practices and policies of other companies within and outside our industry. The Nominating, Compensation and Stock Option Committee compares our executive compensation against the compensation paid by these peer companies. While such comparisons may not always be appropriate as a stand-alone tool for setting compensation due to the aspects of our business and objectives that may be unique to us, we generally believe that gathering this information is an important part of our compensation-related decision-making process.

Although generally we believe that executive base salaries should be targeted taking into consideration the median of the range of salaries for executives in similar positions at comparable companies, we recognize that, to attract, retain and motivate key individuals, such as the named executive officers, the compensation committee may determine that it is in our best interests to negotiate total compensation packages with our executive management that may deviate from the general principle of targeting total compensation at the median level for the peer group.

Actual pay for each named executive officer is determined around this structure, driven by the performance of the executive over time, as well as our annual performance.

## Determination of Compensation Awards

The compensation of the Chief Executive Officer of the Company is determined by the Nominating, Compensation and Stock Option Committee. Such Committee's determinations regarding compensation are based on a number of factors including, in order of importance:

Consideration of the operating and financial performance of the Company, primarily its income before income taxes during the preceding fiscal year, as compared with prior operating periods;

Attainment of a level of compensation designed to retain a superior executive in a highly competitive environment; and

Consideration of the individual's overall contribution to the Company.

Compensation for the Named Executive Officers (referred to in the summary compensation table) other than the Chief Executive Officer is determined by the Nominating, Compensation and Stock Option Committee based upon consultation with the Chief Executive Officer, taking into account the same factors considered by the Board in determining the Chief Executive Officer's compensation as described above. Section 162(m) of the U.S. Internal Revenue Code of 1986 limits deductibility of compensation in excess of \$1 million paid to the Company's Named Executive Officers unless this compensation qualifies as performance-based. Based on the applicable tax regulations, any taxable compensation derived from the exercise of stock options by senior executives under the Company's stock option plans should qualify as performance-based. Under the 1995 Plan, no recipient of options may be granted options to purchase more than 125,000 shares of Common Stock. Therefore, compensation received as a result of options granted under the 1995 Plan qualify as performance-based for purposes of Section 162(m) of the Code. In addition, under the 2002 Plan, no recipient of options may be granted options to purchase more than 50,000 shares of Common Stock in any calendar year. Therefore, compensation received as a result of options granted under the 2002 Plan, qualify as performance-based for purposes of Section 162(m) of the Code (the options exercised by the Named Executive Officers in fiscal 2006 and 2007 were granted under either the 1995 Plan or the 2002 Plan). No stock options were granted in 2006 or 2007.

The Company applies a consistent approach to compensation for all employees, including senior management. This approach is based on the belief that the achievements of the Company result from the coordinated efforts of all employees working toward common objectives.

## Elements of Compensation

**Base Salary.** Base salaries for our executives are established based on the scope of their responsibilities and individual experience, taking into account competitive market compensation paid by companies in our industry. Base salaries are reviewed annually, and adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience. Base salaries are also adjusted annually to take into account performance-based compensation.

**Performance-Based Compensation.** We structure our annual incentive program to reward executive officers based on our performance and the individual executive's contribution to that performance. This allows executive officers to receive such compensation based on the results that they helped us to achieve in the previous year. The incentive payment, based upon the Company's prior year performance, becomes the major portion of the named executive officer's salary for the following year. Currently, this payment is only made to Mr. Daniel P. McCartney and is based on a rate of 2.3% of the income from operations before income taxes of the Company in accordance with generally accepted accounting principles in the fiscal year immediately preceding the year for which such annual salary is

calculated. In 2007, in addition to Mr. McCartney, Mr. Thomas Cook's compensation was so calculated. For periods prior to 2007, the Company had previously calculated this portion of these named executive officers' compensation at a rate of 3%. The Company had used the 3% rate for more than 20 years. The Company believes that the revised 2.3% rate provides an accurate benchmark upon which to build the compensation for these executives. The 3% figure was initially selected as it was deemed to be representative of performance-based compensation for chief executive officers and chief operating officers, as well as providing for a compensation level which reflects the performance of the Company. The Company reduced the rate to 2.3% for 2007 and continued such rate in 2008, as it believes that this reduced rate is a fair and appropriate measure by reason of the continued

increase in the Company's income before income taxes. Joseph F. McCartney, as well as all of our other divisional, regional and district operational managers, is provided with compensation that is based on achieving certain financial and non-financial measures attributable to the service locations under his supervision in conjunction with the goals and objectives of the business plans formulated for those locations. The incentive level escalates as the number of locations being managed increases. The Nominating, Compensation and Stock Option Committee believes that the annual incentive program provides incentives necessary to retain executive officers and reward them for short-term company performance.

**Discretionary Long-Term Equity Incentive Awards.** The Nominating, Compensation and Stock Option Committee of the Board of Directors 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. Guidelines for the number of stock options granted to each executive officer are determined using a procedure approved by the Nominating, Compensation and Stock Option Committee based upon several factors, including the executive officer's salary grade, performance and the value of the stock option at the time of grant. We grant options at the fair market value of the underlying stock on the date of grant. In January 2008, the Nominating, Compensation and Stock Option Committee granted options to purchase an aggregate of 99,950 shares of common stock to our executive officer and directors.

**Deferred Compensation Plan.** Since January 1, 2000, we have had a Supplemental Executive Retirement Plan (the SERP) for certain key executives and employees. The SERP is not qualified under section 401 of the Code. Under the SERP, participants may defer up to 15% of their earned income on a pre-tax basis. As of the last day of each plan year, each participant will receive a 25% match of their deferral in our Common Stock based on the then current market value. SERP participants fully vest in our matching contribution three years from the first day of the initial year of participation. The income deferred and our matching contribution are unsecured and subject to the claims of our general creditors. Under the SERP, we are authorized to issue up to 675,000 shares of our common stock to our employees. Pursuant to such authorization, we have 395,000 shares available for future grant at December 31, 2007 (after deducting the 2007 funding of shares delivered in 2008). In the aggregate, since initiation of the SERP, 280,000 shares (including the 2007 funding of shares delivered in 2008) have been issued to the trustee and accounted for at cost, as treasury stock. At December 31, 2007 (prior to 2007 funding of shares delivered in 2008), approximately 150,000 of such shares are vested and remain in the respective active participants' accounts.

**Employee Stock Purchase Plan.** Since January 1, 2000, we have had a non-compensatory Employee Stock Purchase Plan (ESPP) for all eligible employees. All full-time and certain part-time employees who have completed two years of continuous service with us are eligible to participate. The ESPP was implemented through five annual offerings. The first annual offering commenced on January 1, 2000. On February 12, 2004 (effective January 1, 2004), our Board of Directors extended the ESPP for an additional eight annual offerings. Annual offerings commence and terminate on the respective year's first and last calendar day. Under the ESPP, we are authorized to issue up to 2,700,000 shares of our common stock to our 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 our common stock. The purchase price of the stock is 85% of the lower of its beginning or end of the plan year market price.

#### **Other Elements of Compensation and Perquisites.**

**Medical Insurance.** We provide to each named executive officer, the named executive officer's spouse and children such health, dental and optical insurance as we may from time to time make available to our other executives of the same level of employment. This insurance requires an employee co-payment of the insurance premium.

**Life and Disability Insurance.** We provide each named executive officer such disability and/or life insurance as we in our sole discretion may from time to time make available to our other executive employees of the same level of

employment.

Automobile Allowance. We provide each named executive officer with an automobile allowance during the term of the named executive officer's employment with us as we in our sole discretion may from time to time make

available to our other executive employees of the same level of employment. In lieu of an automobile allowance, we lease an automobile for Thomas A. Cook.

Sporting Event Tickets. We obtain season tickets for several Philadelphia sports teams. Although these tickets are intended to be used for entertaining clients, unused tickets are made available to employees, including the named executive officers, for personal use.

### Summary Compensation Table

The following table sets forth certain information regarding compensation paid or accrued during the Company's prior two fiscal years to the Company's Chief Executive Officer, Chief Financial Officer and the three highest paid executive officers whose total salary and bonus exceeded \$100,000 in 2007 (the "Named Executive Officers").

Name and Principal Position(a)	Year(b)	Salary (\$)(c)	Bonus (\$)(d)	Stock Awards (\$)(e)	Nonqualified	All Other	Total \$(j)
					Deferred Compensation Earnings \$(h)	Compensation \$(i)	
Daniel P. McCartney Chairman of the Board and Chief Executive Officer	2006	\$ 998,941(1)	0	0	\$ 37,474	\$ 18,705(3)	\$ 1,055,120
	2007	\$ 1,005,108(2)	0	0	\$ 37,700	\$ 18,705	1,061,513
Thomas A. Cook President, Chief Operating Officer and Director(5)	2006	\$ 998,070(1)	0	\$ 15,368	\$ 37,474	\$ 23,556(3)	\$ 1,074,468
	2007	\$ 1,011,000(2)	0	\$ 7,265	\$ 37,933	\$ 23,758	1,079,956
James L. DiStefano Chief Financial Officer and Treasurer(4)	2006	\$ 213,400	0	\$ 3,202	\$ 8,022	\$ 4,172(3)	\$ 228,796
	2007	\$ 107,315	0	\$ 0	\$ 0	\$ 13,635	\$ 120,950
Richard W. Hudson Chief Financial Officer and Secretary	2006	\$ 207,900	0	0	\$ 7,819	\$ 4,172(3)	\$ 219,891
	2007	\$ 247,669	0	377	\$ 9,298	\$ 3,852	\$ 261,196
Joseph F. McCartney Division Vice President and Director	2006	\$ 90,090	\$ 51,300	\$ 8,004	\$ 5,329	\$ 28,923(6)	\$ 183,646
	2007	\$ 90,090	\$ 61,906	\$ 3,778	\$ 5,719	\$ 33,222	\$ 194,715

(1) Represents a base salary of \$75,000 and 3.0% of 2005 reported income before income taxes (\$30,799,000), all of which was paid in 2006.

(2) Represents a base salary of \$75,000 and 2.3% of 2006 reported income before income taxes (\$40,723,000), all of which was paid in 2007.

(3) Includes automobile allowance, health insurance premiums paid by the Company and personal use of tickets for sporting events.



- (4) Retired on March 31, 2007.
- (5) During the 2008 second quarter, Mr. Cook's duties as Chief Operating Officer will be assumed by certain Senior and Divisional Vice Presidents. Upon that occurrence, he will cease to be Chief Operating Officer. Mr. Cook's 2008 compensation will be adjusted proportionally. Mr. Cook will remain President and a member of the Board of Directors.
- (6) Includes health insurance premiums paid by the Company of \$20,223 and automobile allowance.

**Grant of Plan-Based Awards**

The following table sets forth information concerning grants of plan-based awards made by us during the year ended December 31, 2007, to each of the Named Executive Officers:

Name(a)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		
	Threshold \$(c)	Target \$(d)	Maximum \$(e)
Joseph F. McCartney	(1)	(1)	\$ 84,000

- (1) Mr. Joseph McCartney earns performance-based compensation based on the achievement of stated financial goals and non-financial measures consistent with the Company's policies applicable to all divisional managers. He may earn such bonus on a total or pro-rata basis dependent on at which level he achieves the stated financial and non-financial goals. The Company has not provided a dollar-value Threshold or Target since, as previously stated, some required goals are not quantifiable in profit dollars.

**Narrative Disclosure to Summary Compensation Table Grants of Plan-Based Awards Table**

The Company has not entered into employment contacts with any of the named executive officers. No options or other equity-based awards were awarded during the fiscal year ended December 31, 2007. No previously granted options or other equity-based awards were re-priced or otherwise materially modified during the fiscal year ended December 31, 2007.

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth information concerning the outstanding equity awards of each of the Named Executive Officers as of December 31, 2007:

Name(a)	Option Awards		
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)(1)	Option Exercise Price \$(e)	Option Expiration Date(f)
Daniel P. McCartney	47,744	\$ 2.7297	12/04/08
	26,681	\$ 3.7481	12/13/12
	18,095	\$ 5.5259	12/26/13
	45,266	\$ 9.1022	12/27/14
	7,242	\$ 13.8067	12/30/10
	30,258	\$ 13.8067	12/30/10

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	10,985	\$ 9.1022	12/27/14
	66,284	\$ 5.5259	12/26/13
	57,698	\$ 3.7481	12/13/12
	23,786	\$ 1.5001	12/06/10
	33,170	\$ 3.0148	12/04/11
	135,581	\$ 2.7407	12/04/11
	140,171	\$ 2.2000	12/16/09
Thomas A. Cook	18,095	\$ 5.5259	12/26/13
	30,258	\$ 13.8067	12/30/10
	7,242	\$ 13.8067	12/30/10
	66,284	\$ 5.5259	12/26/13
	45,266	\$ 9.1022	12/27/14
	10,985	\$ 9.1022	12/27/14

**Option Awards**

<b>Name(a)</b>	<b>Number of Securities Underlying Unexercised Options (#) Exercisable (b)(1)</b>	<b>Option Exercise Price (\$)(e)</b>	<b>Option Expiration Date(f)</b>
Richard W. Hudson	2,537	\$ 9.1022	12/27/14
	11,516	\$ 9.1022	12/27/14
	7,242	\$ 13.8067	12/30/10
	7,758	\$ 13.8067	12/30/10
Joseph F. McCartney	18,095	\$ 5.5259	12/26/13
	15,659	\$ 5.5259	12/26/13
	7,073	\$ 3.7481	12/13/12
	10,985	\$ 9.1022	12/27/14
	11,516	\$ 9.1022	12/27/14
	7,242	\$ 13.8067	12/30/10
	7,758	\$ 13.8067	12/30/10

(1) All options were fully vested on December 31, 2007.

**Option Exercises and Stock Vested**

The following table sets forth information concerning the option exercises and stock vested of each of the Named Executive Officers during the year ended December 31, 2007:

<b>Name(a)</b>	<b>Option Awards</b>	
	<b>Number of Shares Acquired on Exercise (#) (b)</b>	<b>Value Realized on Exercise (\$) (c)</b>
Joseph F. McCartney	22,928	357,483
Thomas Cook	360,944	5,901,939
Daniel P McCartney	126,568	2,436,712
Richard W. Hudson	22,628	288,550
James L. DiStefano	205,413	2,921,157

**Nonqualified Deferred Compensation**

The following table sets forth information concerning the non qualified deferred compensation of each of the Named Executive Officers during the year ended December 31, 2007:

<b>Name(a)</b>	<b>Executive Contributions in Last FY \$(b)</b>	<b>Registrant Contributions in Last FY \$(c)</b>	<b>Aggregate Earnings in Last FY \$(d)</b>	<b>Aggregate Balance at Last FYE \$(f)</b>
Daniel P. McCartney	153,666	37,700	109,184	1,941,022
Thomas A. Cook	154,431	37,933	(54,512)	1,412,259
James L. DiStefano(1)	0	0	10,859	0
Richard W. Hudson	37,768	9,298	11,486	171,173
Joseph F. McCartney	23,319	5,719	34,396	367,792

(1) Mr. DiStefano received \$400,311 in account liquidation payments in 2007.

### Employee Stock Purchase Plan

Since January 1, 2000, we have had a non-compensatory Employee Stock Purchase Plan ( ESPP ) for all eligible employees. All full-time and certain part-time employees who have completed two years of continuous service with us are eligible to participate. The ESPP was implemented through eight annual offerings. The first annual offering commenced on January 1, 2000. On February 12, 2004 (effective January 1, 2004), our Board of Directors extended the ESPP for an additional eight annual offerings. Annual offerings commence and terminate on the respective year's first and last calendar day. Under the ESPP, we are authorized to issue up to 2,700,000 shares of our common stock to our 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 our common stock. The purchase price of the stock is 85% of the lower of its beginning or end of the plan year market price. Distributions are only made upon an employee's departure from the Company.

### Directors' Compensation

Directors who are also our employees are not separately compensated for their service as directors. Our non-employee directors received the following aggregate amounts of compensation for the year ended December 31, 2007:

Name(a)	Fees Earned or Paid in Cash \$(b)	Total \$(j)
Barton D. Weisman(1)	\$ 5,500	\$ 5,500
John M. Briggs(2)	\$ 47,000	\$ 47,000
Robert L. Frome(3)	\$ 2,000	\$ 2,000
Robert J. Moss(4)	\$ 5,500	\$ 5,500
Dino D. Ottaviano(5)	\$ 1,500	\$ 1,500

(1) Mr. Weisman had vested options to purchase 102,923 shares of common stock outstanding as of December 31, 2007.

(2) Mr. Briggs had vested options to purchase 39,906 shares of common stock outstanding as of December 31, 2007.

(3) Mr. Frome had vested options to purchase 65,234 shares of common stock outstanding as of December 31, 2007.

(4) Mr. Moss had vested options to purchase 24,956 shares of common stock outstanding as of December 31, 2007.

(5) Mr. Ottaviano had no options to purchase at December 31, 2007.

### Directors' Fees

The Company paid each director who is not an employee of the Company, other than Robert Frome, \$500 for each regular or committee meeting of the Board of Directors attended. Mr. Briggs received a quarterly retainer of \$9,000 in respect to his chairmanship of the Audit Committee and serving as the Audit Committee Financial Expert. Mr. Frome

bills the Company at his customary rate for time spent on behalf of the Company (whether as a director or in performance of legal services for the Company) and is reimbursed for expenses incurred in attending directors meeting. The Company did not grant any options to non-employee directors in 2007.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), requires the Company's Directors, executive officers and 10% shareholders to file with the Securities Exchange Commission ( SEC ) and the NASDAQ Stock Market, LLC initial reports of ownership and reports of changes in ownership of the Company's Common Stock. Directors and executive officers are required to furnish the Company with copies of all Section 16(a) reports which they file.

To the Company's knowledge, based solely on review of the copies of these reports furnished to the Company and written representations that no other reports were required, during 2007 all Section 16 (a) filing requirements applicable to its Directors and executive officers were complied with.

### **Sarbanes-Oxley Act Compliance**

Sarbanes-Oxley sets forth various requirements for public companies and directs the SEC to adopt additional rules and regulations.

Currently, the Company believes it is in compliance with all applicable laws, rules and regulations arising from Sarbanes-Oxley. The Company intends to comply with all rules and regulations adopted by the SEC pursuant to Sarbanes-Oxley no later than the time they become applicable to the Company.



## AUDIT COMMITTEE REPORT

The members of the Audit Committee from January 1, 2007 to December 31, 2007 were Messrs. John M. Briggs, Robert J. Moss and Barton D. Weisman. The Audit Committee met six times during the fiscal year. The Audit Committee is responsible for the appointment of the Independent Auditors for each fiscal year, recommending the discharge of the Independent Auditors to the Board and confirming the independence of the Independent Auditors. It is also responsible for: reviewing and approving the scope of the planned audit, the results of the audit and the Independent Auditors' compensation for performing such audit; reviewing the Company's audited financial statements; and reviewing and approving the Company's internal accounting controls and disclosure procedures, and discussing such controls and procedures with the Independent Auditors.

The Audit Committee adopted an Amended and Restated Audit Committee Charter on February 12, 2004, a copy of which is available on the Company's website at [www.hcsgcorp.com](http://www.hcsgcorp.com).

The Company's Independent Auditors are responsible for auditing the financial statements, as well as auditing the Company's internal controls over financial reporting. The activities of the Audit Committee are in no way designed to supersede or alter those traditional responsibilities. The Audit Committee's role does not provide any special assurances with regard to the Company's financial statements, nor does it involve a professional evaluation of the quality of the audits performed by the Independent Auditors.

In connection with the audit of the Company's financial statements for the year ended December 31, 2007, the Audit Committee met with representatives from Grant Thornton LLP, the Company's Independent Auditors, and the Company's internal auditor. The Audit Committee reviewed and discussed with Grant Thornton LLP and the Company's internal auditor, the Company's financial management and financial structure, as well as the matters relating to the audit required to be discussed by Statements on Auditing Standards 61 and 90, and Public Company Accounting Oversight Board Auditing Standard No. 5.

The Audit Committee and Grant Thornton LLP also discussed Grant Thornton LLP's independence. On November 19, 2007, the Audit Committee received from Grant Thornton LLP the written disclosures and the letter regarding Grant Thornton LLP's independence required by Independence Standards Board Standard No. 1.

In addition, the Audit Committee reviewed and discussed with management the Company's audited financial statements for the fiscal year ended December 31, 2007, as well as management's assessment of internal controls over financial reporting.

Based upon the review and discussions described above, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, that the Company's financial statements audited by Grant Thornton LLP, as well as the audit of the Company's internal controls over financial reporting be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

### AUDIT COMMITTEE

John M. Briggs, Chairman

Robert J. Moss

Barton D. Weisman

## **NOMINATING, COMPENSATION AND STOCK OPTION COMMITTEE REPORT**

The compensation of the Chief Executive Officer of the Company is determined by the Nominating, Compensation and Stock Option Committee. Such Committee's determinations regarding such compensation are based on a number of factors including, in order of importance:

Consideration of the operating and financial performance of the Company, primarily its income before income taxes during the preceding fiscal year, as compared with prior operating periods;

Attainment of a level of compensation designed to retain a superior executive in a highly competitive environment; and

Consideration of the individual's overall contribution to the Company.

In consultation with the Chief Executive Officer of the Company, the Nominating, Compensation and Stock Option Committee develops guidelines and reviews the compensation and performance of the other executive officers of the Company, as well as any management fees paid by the Company for executive services, and sets the compensation of the executive officers of the Company and/or any management fees paid by the Company for executives services. In addition, the Nominating, Compensation and Stock Option Committee makes recommendations to the Board of Directors with respect to incentive-compensation plans and equity-based plans, and establishes criteria for the granting of options in accordance with such criteria; and administers such plans. The Nominating, Compensation and Stock Option Committee reviews major organizational and staffing matters. With respect to director compensation, the Nominating, Compensation and Stock Option Committee designs a director compensation package of a reasonable total value based on comparisons with similar firms and aligned with long-term shareholder interests. Finally, the Nominating, Compensation and Stock Option Committee reviews director compensation levels and practices, and recommends, from time to time, changes in such compensation levels and practices to the Board of Directors with equity ownership in the Company encouraged. The Nominating, Compensation and Stock Option Committee's charter provides that the committee shall have the authority to obtain advice and seek assistance from internal and external legal, accounting and other advisors.

The Nominating, Compensation and Stock Option Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

### **NOMINATING, COMPENSATION AND STOCK OPTION COMMITTEE**

John M. Briggs

Robert J. Moss

### **Compensation Committee Interlocks and Insider Participation**

No member of the compensation committee was an officer or employee of the Company or any subsidiary of the Company during the fiscal year ended December 31, 2007. No member of the compensation committee was a member of the compensation committees of another entity during the fiscal year ended December 31, 2007. None of our executive officers was a member of the compensation committee, or a director, of another entity during fiscal 2007. There were no transactions between any member of the compensation committee and the Company during the fiscal year ended December 31, 2007 requiring disclosure pursuant to Item 404 of Regulation S-K promulgated under the Exchange Act.

### **Certain Relationships and Related Party Transactions**

Mr. Barton D. Weisman, a director of the Company, has an ownership interest in ten nursing homes that have entered into service agreements with the Company. During the year ended December 31, 2007, these agreements resulted in gross revenues of approximately \$3,440,000 to the Company (less than 1% of the Company's total revenues). Management believes that the terms of each of the transactions with the nursing homes described herein are comparable to those available to unaffiliated third parties.

Mr. James Cook, the brother of Thomas Cook (a director of the Company, as well as its President and Chief Operating Officer), has an ownership interest in four nursing homes that have entered into service agreements with the Company. During the year ended December 31, 2007, these agreements resulted in gross revenues of approximately \$1,454,000 to the Company (less than 1% of the Company's total revenues).

Mr. Bryan McCartney, the brother of Daniel McCartney (Chairman of the Board and the Company's Chief Executive Officer) and Joseph McCartney (Divisional Vice President and Director), is employed by the Company as a Senior Vice President. Mr. Bryan McCartney's compensation earned as salary from the Company during fiscal year 2007 was approximately \$520,000. Additionally, Mr. Bryan McCartney earned compensation of approximately \$1,510,000 from the value realized on the exercise of stock options. Such compensation earned by Mr. Bryan McCartney is in accordance with the Company's compensation plan for all management personnel in similar positions.

Mr. Kevin McCartney, the brother of Daniel McCartney and Joseph McCartney, is employed by the Company as a Divisional Vice President. Mr. Kevin McCartney's compensation earned from the Company during fiscal year 2007 was approximately \$151,000. Such compensation earned by Mr. Kevin McCartney is in accordance with the Company's compensation plan for all management personnel in similar positions.

Mr. Timothy McCartney, the brother of Daniel McCartney and Joseph McCartney, is employed by the Company as a Corporate Counsel. Mr. Timothy McCartney's compensation earned from the Company during fiscal year 2007 was approximately \$120,000. Management believes that the compensation earned by Mr. Timothy McCartney is comparable to the compensation the Company would pay to a non-relative employee in a similar position.

### **Procedures for Contacting Directors**

The Board of Directors has established a process for shareholders to send communications to the Board of Directors. Shareholders may communicate with the board generally or a specific director at any time by writing to: Healthcare Services Group, Inc., 3220 Tillman Drive, Suite 300, Bensalem, PA 19020, Attention: Investor Relations. The Company reviews all messages received, and forwards any message that reasonably appears to be a communication from a shareholder about a matter of shareholder interest that is intended for communication to the Board of Directors. Communications are sent as soon as practicable to the director to whom they are addressed, or if addressed to the Board of Directors generally, to the chairman of the Nominating, Compensation and Stock Option Committee.

Because other appropriate avenues of communication exist for matters that are not of shareholder interest, such as general business complaints or employee grievances, communications that do not relate to matters of shareholder interest are not forwarded to the Board of Directors.

## **PROPOSAL NO. 2**

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The accounting firm of Grant Thornton LLP was selected by the Audit Committee of the Board as the Independent Auditors of the Company for the fiscal year ending December 31, 2008. Said firm has no other relationship to the Company. The Board recommends the ratification of the selection of the firm of Grant Thornton LLP to serve as the Independent Auditors of the Company for the year ending December 31, 2008. A representative of Grant Thornton LLP, which has served as the Company's Independent Auditors since December 1992, will be present at the forthcoming shareholders' meeting with the opportunity to make a statement if he so desires and such representative will be available to respond to appropriate questions. The approval of the proposal to ratify the appointment of Grant Thornton LLP requires the affirmative vote of a majority of the votes cast by all shareholders represented and entitled to vote thereon. An abstention or withholding of authority to vote, therefore, will not have the same legal effect as an "against" vote and will not be counted in determining whether the proposal has received the required shareholder vote. However, brokers that do not receive instructions on this proposal are entitled to vote for the selection of the independent registered public accounting firm.

Fees billed to Company by Grant Thornton LLP during fiscal year 2007:

**Audit Fees:** Audit fees billed to the Company by Grant Thornton LLP during the Company's 2007 fiscal year and 2006 fiscal year for audit of the Company's annual financial statements, reviews of those financial statements included in the Company's quarterly reports on Form 10-Q, and auditing of the Company's internal controls over financial reporting totaled approximately \$686,000 and \$719,000, respectively.

**Audit Related Fees:** Audit related fees billed to the Company by Grant Thornton LLP were approximately \$35,000 and \$43,000, respectively, during the Company's 2007 fiscal year and 2006 fiscal years. Such fees were primarily for assurance and related services related to employee benefit plan audits, and special procedures required to meet certain regulatory filings' requirements.

**Tax Fees:** Tax fees billed by Grant Thornton LLP for tax compliance, tax advice and tax planning totaled approximately \$23,000 and \$18,000 for the 2007 fiscal year and 2006 fiscal year, respectively.

**All Other Fees:** There were no other fees billed to the Company by Grant Thornton LLP during our 2007 fiscal year. Other fees billed to the Company by Grant Thornton LLP for advisory services were \$4,000 during the Company's 2006 fiscal year.

### **OTHER MATTERS**

So far as is now known, there is no business other than that described above to be presented for action by the shareholders at the meeting, but it is intended that the proxies will be exercised upon any other matters and proposals that may legally come before the meeting, or any adjournment or postponement thereof, in accordance with the discretion of the persons named therein.

### **DEADLINE FOR SHAREHOLDER PROPOSALS**

To the extent permitted by law, any shareholder proposal intended for presentation at next year's annual shareholders meeting must be received in proper form at the Company's principal office no later than December 8, 2008.

In accordance with and to the extent covered by Rule 14a-4(c)(1) of the Exchange Act, if the Company is not notified of a shareholder proposal by February 21, 2009, such proposal will not be included in the proxy statement for the next year's annual shareholders' meeting and the Company will be permitted to use its discretionary authority in respect thereof.

**ANNUAL REPORT**

The 2007 Annual Report to Shareholders, including financial statements, is being mailed herewith. If you do not receive your copy, please advise the Company and another will be sent to you. Certain information contained in our Annual Report on Form 10-K for the year ended December 31, 2007, filed on February 19, 2008, is incorporated by reference to this proxy statement.

By Order of the Board of Directors,  
Daniel P. McCartney  
Chairman and  
Chief Executive Officer

Dated: Bensalem, Pennsylvania  
April 7, 2008

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission, may be obtained without charge by any shareholder of record on the record date upon written request addressed to: Secretary, Healthcare Services Group, Inc., 3220 Tillman Drive, Suite 300, Bensalem, PA 19020 or by visiting the Company's website at [www.hcsgcorp.com](http://www.hcsgcorp.com).





To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Shareholder

Date:

Signature of Shareholder

Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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**HEALTHCARE SERVICES GROUP, INC.**

**PROXY**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS  
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD AT  
THE RADISSON HOTEL OF PHILADELPHIA NORTHEAST,  
2400 OLD LINCOLN HIGHWAY, TREVOSSE, PA 19053 ON MAY 20, 2008 AT 10:00 A.M.**

The undersigned, revoking all previous proxies, hereby appoints Daniel P. McCartney and Thomas A. Cook or either of them, attorneys and proxies with full power of substitution and with all the powers the undersigned would possess if personally present, to vote all shares of HEALTHCARE SERVICES GROUP, INC. owned by the undersigned at the Annual Meeting of Shareholders of said corporation to be held at the place set forth above, and at any adjournment or postponement thereof, in the transaction of such business as may properly come before the meeting or any adjournment or postponement thereof, all as more fully described in the Proxy Statement, and particularly to vote as designated on the reverse side.

**THE SHARES REPRESENTED HEREBY WILL BE VOTED AS DIRECTED BY THIS PROXY. IF NO DIRECTION IS MADE THEY WILL BE VOTED FOR THE ELECTION OF THE NOMINATED DIRECTORS AND FOR RATIFICATION OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ALL AS RECOMMENDED IN THE PROXY STATEMENT, AND IN ACCORDANCE WITH THE DISCRETION OF THE PROXIES OR PROXY ON ANY OTHER BUSINESS TRANSACTED AT THE ANNUAL MEETING.**

(Continued and to be signed on the reverse side.)

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