HEALTHCARE SERVICES GROUP INC
Form DEF 14A
March 31, 2009

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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 þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

þ Definitive Proxy Statement

o Definitive Additional Materials

o 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):

þ No fee required.

o 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 19, 2009

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 19, 2009, at 10:00 A.M., for the following purposes:

1. To elect seven 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, 2009; 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 3, 2009 will be entitled to notice of and to vote at the Annual Meeting.

Important Notice Regarding the Availability of
Proxy Materials for the Shareholders
meeting to be Held on May 19, 2009

The proxy statement and annual report to shareholders are available under 2009 Proxy Materials at 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 6, 2009

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HEALTHCARE SERVICES GROUP, INC.

3220 Tillman Drive
Suite 300
Bensalem, Pennsylvania 19020

PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS
May 19, 2009

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, Trevose, Pennsylvania 19053, on May 19, 2009 at 10:00 A.M. At the Annual Meeting, the shareholders will consider the following proposals: (1) to elect seven 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, 2009; 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 6, 2009.

PROXIES; VOTING SECURITIES

Only holders of Common Stock of record at the close of business on April 3, 2009 (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 43,300,000 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.

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 also implemented 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. Weisman has announced that he will retire from his position as a Director of the Company after the Annual Meeting and therefore, has chosen not to seek re-election to the Board of Directors. Mr. Weisman has served as a member on the Board of Directors since 1983. However, if Messrs. Briggs, Frome, Moss and Ottaviano are re-elected as members of the Board of Directors, a majority of the members of the Company s Board of Directors will continue to be independent.

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, 2008, these agreements resulted in gross revenues of approximately $3,500,000 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, 2008 were approximately $50,000. 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.

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PROPOSAL NO. 1

ELECTION OF DIRECTORS

At the Annual Meeting, seven 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 current nominees are as follows:

Name, Age, Principal Occupations for the past five years and Current Public Directorships or Trusteeships	**Director Since**
Daniel P. McCartney, 57, Chief Executive Officer and Chairman of the Board of the Company for more than five years	1977
Joseph F. McCartney, 54, Divisional Vice President of the Company for more than five years; brother of Daniel P. McCartney	1983
Robert L. Frome, Esq., 71, Member of the law firm of Olshan Grundman Frome Rosenzweig & Wolosky LLP for more than five years	1983
Thomas A. Cook, CPA, 63, President of the Company for more than five years. Prior to July 1, 2008, Mr. Cook also served as the Company s Chief Operating Officer for more than five years	1987
Robert J. Moss, Esq., 71, Retired. 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, 58, 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, 61, 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.

In addition to the nominees, Barton D. Weisman currently serves as a director of the Company. Mr. Weisman has announced that he will retire from his position as a Director of the Company after the Annual Meeting and therefore, has chosen not to seek re-election. Mr. Weisman currently serves as a member of the Audit Committee. If Messrs. Briggs, Moss and Ottaviano are re-elected as Directors of the Company it is anticipated that such individuals will comprise the Audit Committee following the Annual Meeting. The age and principal occupation and current public directorships and trusteeships for Mr. Weisman are as follows:

Barton D. Weisman, 81, 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)

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OTHER EXECUTIVE OFFICERS

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

Richard W. Hudson, CPA, 61, 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.

Theodore Wahl, CPA, 35, Vice President of Finance since January 2009. Prior to becoming Vice President of Finance, Mr. Wahl served as a Facility Manager, District Manager and Regional Manger, as well as in a corporate financial management position within the Company for more than four years. Prior to serving with the Company, Mr. Wahl was a Senior Manager with Ernst & Young s Transaction Advisory Group for more than one year and more than five years with Ernst & Young s Mergers and Acquisitions Group. Ernst & Young is a registered public accounting firm; son-in-law of Mr. Daniel P. McCartney.

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 2008 fiscal year. During 2008, 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 2008, 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 2008 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) 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 seven

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times during fiscal year 2008. The report of Audit Committee for the fiscal year ended December 31, 2008 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 and 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 three times during fiscal year 2008.

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. 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.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of April 3, 2009, 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.

Name and Beneficial Owner or Group(1)(2)	Amount and Nature of Beneficial Ownership	Percent of Class(3)
Neuberger Berman, LLC	4,480,754(4)	10.3%
Daniel P. McCartney	3,173,805(5)	7.3%
Barclays Global Investors, NA	2,738,932(6)	6.3%
Advisory Research Inc.	2,469,877(7)	5.7%
Barton D. Weisman	346,078(8)	(18)
Joseph F. McCartney	157,412(9)	(18)
Robert L. Frome	77,943(10)	(18)
Thomas A. Cook	76,083(11)	(18)
John M. Briggs	64,939(12)	(18)
Richard W. Hudson	37,497(13)	(18)
Robert J. Moss	23,354(14)	(18)
Theodore Wahl	6,845(15)	(18)
Dino D. Ottaviano	998(16)	(18)
Directors and Executive Officers as a group (10 persons)	3,964,954(17)	9.0%

(1) Unless otherwise indicated, 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 Barclays Global Investors, NA is 400 Howard Street, San Francisco, CA 94105

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

(3) Based on 43,300,000 shares of Common Stock outstanding at April 3, 2009.

(4) According to a Schedule 13G filed by Neuberger Berman, LLC, Neuberger Berman Inc., Neuberger Berman Management LLC and Neuberger Berman Equity Funds on February 12, 2009. Such entities have, in the aggregate, beneficial ownership of 4,480,754 shares.

(5) Includes incentive stock options to purchase 97,127 shares and nonqualified stock options to purchase 339,130 shares all currently exercisable, and 39,774 shares credited to Mr. McCartney s account (but unissued) in

connection with the Company s Deferred Compensation Plan; excludes 50,402 held by Mr. McCartney s adult child. 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 Barclays Global Investors, NA dated February 6, 2009, it and Barclays Global Fund Advisors, Barclays Global Investors, Ltd, Barclays Global Investors Canada Limited, Barclays Global Investors Austrailia Limited, Barclays Global Investors (Deutschland) Limited AG and Barclays Global Investors Japan Limited have, in the aggregate, beneficial ownership of 2,738,932 shares.

(7) According to a Schedule 13G filed by Advisory Research Inc. dated February 13, 2009, it has sole dispositive power and sole voting power with respect to the 2,469,877 shares.

(8) Includes nonqualified stock options to purchase 70,237 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.

(9) Includes incentive stock options to purchase 37,279 shares and nonqualified stock options to purchase 43,048 shares, all currently exercisable, 7,691 shares credited to Mr. McCartney s account (but unissued) in connection with the Company s Deferred Compensation Plan and 2,000 shares held by Mr. McCartney s minor child.

(10) Includes nonqualified stock options to purchase 34,774 shares, all currently exercisable.

(11) Includes incentive stock options to purchase 8,200 shares and nonqualified stock options to purchase 34,301 shares all currently exercisable, and 3,187 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 24,943 shares, all currently exercisable.

(13) Includes incentive stock options to purchase 10,738 shares and nonqualified stock options to purchase 21,317 shares, all currently exercisable, and 3,067 shares credited to Mr. Hudson s account (but unissued) in connection with the Company s Deferred Compensation Plan.

(14) Includes nonqualified stock options to purchase 20,737 shares, all currently exercisable.

(15) Includes incentive stock options to purchase 1,600 shares, all currently exercisable, and 445 shares credited to Mr. Wahl s account (but unissued) in connection with the Company s Deferred Compensation Plan.

(16) Represents nonqualified stock options to purchase 998 shares, all currently exercisable.

(17) Includes 744,434 shares underlying options granted to this group. All options are currently exercisable; also includes 54,163 shares credited to the accounts of certain executive officers (but unissued) in connection with the Company s Deferred Compensation Plan.

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

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MANAGEMENT COMPENSATION

Compensation Discussion and Analysis

Compensation Objectives

We refer to our chief executive officer, the chief financial officer, and each of our other three most highly compensated executive officers as our named executive officers. As more fully described below (a) the base salary of Mr. Daniel McCartney was primarily based on a minimum base salary plus an additional amount based on the Company s income from operations before income taxes, (b) the base salary of Mr. Thomas Cook for the first six-months of 2008 was based on a minimum base salary plus an additional amount based on the Company s income from operations before income taxes, his base salary for the balance of 2008(the period for which he reduced his time devoted to the Company) was based on the amount of time he spent on Company business (c) Mr. Joseph McCartney received a minimum base salary plus a bonus based on the attainment of certain financial and non-financial measures and (d) the base salaries of Messrs. Hudson and Wahl were based on their performance and level of responsibility. Our Nominating, Compensation and Stock Option Committee believes that compensation paid to Messrs. Daniel McCartney and Joseph McCartney, consistent with the compensation plans of all other divisional vice presidents, 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 Company s and 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 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. As part of the review of the Company s compensation, the compensation policies of the following companies have been examined: AMN Healthcare Services, Inc. (a healthcare staffing company), ABM Industries Incorporated (a provider of janitorial, parking, security and engineering services for commercial and industrial facilities), and ARAMARK Corporation (a food, hospitality and facility service company). While the Nominating, Compensation and Stock Option Committee believes that gathering information about the compensation practices of these companies is an important part of our compensation related decision-making process, as none of these companies are specifically engaged in the Company s business and the Company is unaware of any other public company which provides housekeeping and food services to the health care industry, the Company believes that compensation comparisons with the aforementioned other companies is not apt. Accordingly, while the Nominating, Compensation and Stock Option Committee is aware of the compensation practices of the companies set forth above, the Committee has not necessarily relied on comparisons with such entities for purposes of making compensation decisions for Company executive officers and the Company does not benchmark compensation against the compensation of such other Companies.

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 Chief Executive Officer in consultation with the Nominating, Compensation and Stock Option Committee , taking into account the same factors considered 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 2008, 2007 and 2006 were granted under either the 1995 Plan or the 2002 Plan). As described under Executive Compensation Grant of Plan-Based Awards , options were granted in fiscal year 2008 to certain Named Executive Officers. No stock options were granted in either fiscal years 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. With respect to certain of our executive officers this adjustment takes into account individual responsibilities, performance and experience.

Historically, the base salary of each of Messrs. Daniel McCartney and Thomas Cook was a minimum of $75,000 with the balance of their base salary derived from the Performance-Based Compensation criteria described in the paragraph below. In 2008, Mr. Daniel McCartney s minimum base salary was reduced to $25,000. The reduction was implemented to more closely align his compensation with the best interests of the Company s shareholders, as well as the Company s overall management salary structure. Mr. Cook s 2008 compensation for the period January 1, 2008 through June 30, 2008 was calculated as in previous years. Effective July 1, 2008, when Mr. Cook no longer served as Chief Operating Officer, his compensation was revised to a fixed salary amount to reflect the time he spends on Company business. The compensation for Mr. Joseph McCartney is based on a minimum base salary plus a bonus based on the factors described under the performance-based compensation criteria below. The base salary for Mr. Richard Hudson increased from $247,669 to $400,369 due to the increased responsibilities of Mr. Hudson as a result of his serving as the Chief Financial Officer of the Company for all of 2008 as opposed to only part of 2007. The annual salary for Mr. Wahl increased to $114,725 from $97,855 (including incentive compensation of $26,053) due to increased responsibilities assumed by Mr. Wahl resulting from his promotion from Financial Manager to Vice President of Finance.

Performance-Based Compensation. We structure our annual incentive program to reward certain executive officers based on our performance and our evaluation of 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; Effective July 1, 2008, Mr. Cook s salary was fixed at an amount to reflect the amount of time he spends on Company business. 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. Moreover, the Nominating, Compensation and Stock Option Committee changed the rate from 3% to 2.3% in order to ensure that the compensation of Messrs. Daniel McCartney and Cook were more aligned with the compensation of the Company s other managerial employees. The Nominating, Compensation and Stock Option Committee has historically tied the compensation of Messrs. Daniel McCartney and Thomas Cook into the Company s financial performance because they have had responsibility for all key strategic and policy decisions impacting the Company. Similarly, since a key function of Mr. Joseph McCartney is supervising many of the Company s service locations within a specific geographical area (essentially the operational management groupings they roll up to), the Nominating, Compensation and Stock Option Committee believes a significant portion of his compensation, as with the Company s other divisional vice presidents, should be based in part on the attainment of the goals and objectives set forth in the business plans formulated for the service locations under his supervision. 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 measures, attributable to the management groupings of the service locations under their respective supervision, in conjunction with the goals and objectives of the business plans formulated for such management groupings. The incentive level escalates as the number of locations being managed increases. The component of compensation attributed to the achievement of financial goals and objectives represents the greater part of their total compensation. To a much lesser extent, compensation above base salary is also earned as a result of a subjective evaluation of performance in achieving non-financial goals and objectives. 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 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 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 and January 2009, the Nominating, Compensation and Stock Option Committee granted options to purchase an aggregate of 104,950 and 101,950, respectively, shares of common stock to our named executive officers and directors. Such awards are detailed for the respective named executive officers in the table reporting on

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Grant of Plan-Based Awards included in this proxy statement. In making its decision to grant these awards, the Nominating, Compensation and Stock Option Committee considered the competitive challenges to our business and the commitments of time, energy and expertise our executive officers have expended to meet these challenges and foster the growth and financial position of the Company. The Nominating, Compensation and Stock Option Committee has also granted options to all other levels of Company management and key employees and believes that the grant of the options to the named executive officers is aligned with the grants to such management and key employees and also aligns the interest of management with shareholders. As indicated under Compensation Objectives above, the Nominating, Compensation and Stock Option Committee has not adopted any formal guidelines for allocating total compensation between cash and equity.

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 372,000 shares available for future grant at December 31, 2008 (after deducting the 2008 funding of shares delivered in 2009). In the aggregate, since initiation of the SERP, 303,000 shares (including the 2008 funding of shares delivered in 2009) have been issued to the trustee and accounted for at cost, as treasury stock. At December 31, 2008 (prior to 2008 funding of shares delivered in 2009), approximately 154,000 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 some Named Executive Officers with an automobile allowance during the term of the his 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.

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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 2008 (the Named Executive Officers).

Name and Principal Position(a)	Year(b)	Salary ($)(c)	Bonus ($)(d)	Stock Awards ($)(e)	Nonqualified Deferred Compensation Earnings ($)(h)	All Other Compensation ($)(i)	Total ($)(j)
Daniel P. McCartney	2006	$ 998,941(1)	0	0	$ 37,474	$ 18,705(5)	$ 1,055,120
Chairman of the	2007	$ 1,005,108(2)	0	0	$ 37,700	$ 18,705	1,061,513
Board and Chief	2008	$ 1,024,437(3)	0	0	$ 38,423	$ 18,705	$ 1,081,565
Executive Officer							
Thomas A. Cook	2006	$ 998,070(1)	0	$ 15,368	$ 37,474		