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Healthcare Services Group, Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Sir, are you ready to take questions now?

Daniel McCartney

Yes.

Operator

Thank you. (Operator instructions) We will take our first question today from Michael Gallo of C.L. King.

Michael Gallo – C.L. King

Hi, good afternoon.

Daniel McCartney

Hi, Mike.

Michael Gallo – C.L. King

Couple of questions, Dan. The gross margins, nice improvement sequentially from Q3, but still below your longer-term targets. I was wondering if there was any additional workers' comp or bad debt reserves built into those numbers, or just anything that affected that comparison.

Daniel McCartney

The real – the housekeeping supplies were up about little less than 0.5%, and food services were up – food purchases were up close to 1% and that is really what caused the direct cost to be over 86%. We still – we expect that to not be in a continuous basis. A lot of new startups, yes, some initial purchases for housekeeping supplies, for example, but we expect those expenses to be back to their historical levels, and do expect to get below 86% and frankly work our way down to 85% in the direct cost area over the next year.

Michael Gallo – C.L. King

There was nothing really unusual, it sounded like just some timing of purchases and things like that. Is that a fair way to characterize it?

Daniel McCartney

Yes.

Michael Gallo – C.L. King

And then just second question, I mean, obviously everyone is looking at the state budget gap. California is certainly front and center of that. I was wondering if you have any sense for what might happen from sort of the state reimbursement side of things as we head through this year.

Daniel McCartney

I think most of the state budgets as far as Medicaid payments have been put in place. The cash flow issues in California are certainly a different issue, but what we are getting from most of our clients are they expect to be paid. Not like in the summer, where the budget impasse precluded them from passing the budget till almost October, and they didn't get any funding. They still expect to get paid. So, you know, with maybe some slight disruptions, we don't see that really as being a problem for us in California being the most degree. Just put all the states – or at least rhetorically talking about the same kind of issues, but I think the Medicaid rates have been set unless there is an acute cash flow issue state-by-state. I really don't think it will impact us to any great degree.

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