UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2000

OR

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

For the transition period from ________________ to ________________

Commission file number 333-64679

Harborside Healthcare Corporation

Delaware	04-3307188
(State or other jurisdiction of incorporation or organization)	(IRS employer identification no.)
One Beacon Street, Boston, Massachusetts	02108
(Address of principal executive offices)	(Zip Code)

(617) 646-5400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes_x_ No___

Number of shares of common stock, par value $0.01 per share outstanding as of August 10, 2000: 7,261,332.

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share amounts)

	December 31, 1999	(Unaudited) June 30, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,386	$ 7,022
Accounts receivable, net of allowances for doubtful accounts of $3,098 and $3,894, respectively	50,168	49,243
Prepaid expenses and other	19,940	20,813
Prepaid income taxes	2,608	-
Deferred income taxes	2,400	2,400
Total current assets	76,502	79,478
Restricted cash	2,420	2,726
Property and equipment, net	166,326	165,814
Deferred financing and other non-current assets, net	15,546	14,258
Other assets, net	3,100	2,500
Note receivable	7,487	7,487
Deferred income taxes	11,852	13,944
Total assets	$ 283,233	$ 286,207
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	$ 227	$ 238
Current portion of capital lease obligation	4,633	4,790
Note payable to affiliate	5,000	5,000
Accounts payable	9,328	13,519
Employee compensation and benefits	14,021	13,063
Other accrued liabilities	5,508	4,619
Accrued interest	572	258
Current portion of deferred income	677	595
Total current liabilities	39,966	42,082
Long-term portion of deferred income	2,427	2,170
Long-term debt	166,018	172,272
Long-term portion of capital lease obligation	50,067	49,376
Total liabilities	258,478	265,900
Exchangeable preferred stock, redeemable, $.01 par value with a liquidation value of $1,000 per share; 500,000 shares authorized; 48,277 and 51,581 issued and outstanding, respectively	48,277	51,581
STOCKHOLDERS' DEFICIT		
Common stock, $.01 par value, 19,000,000 shares authorized, 7,261,332 shares issued and outstanding	146	146
Additional paid-in capital	198,603	195,288
Less common stock in treasury, at cost, 7,349,832 shares	(183,746)	(183,746)
Accumulated deficit	(38,525)	(42,962)
Total stockholders' deficit	(23,522)	(31,274)
Total liabilities and stockholders' deficit	$ 283,233	$ 286,207

The accompanying notes are an integral part of the condensed consolidated financial statements.

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(dollars in thousands, except per share amounts)

	For the three months ended June 30,		For the six months ended June 30,	
	1999	2000	1999	2000
Total net revenues	$ 75,016	$ 79,414	$ 146,720	$ 158,390
Expenses:				
Facility operating	61,347	63,165	124,052	126,698
General and administrative	4,589	4,906	9,381	9,381
Service charges paid to former affiliate	277	275	573	550
Amortization of prepaid management fee	300	300	600	600
Depreciation and amortization	2,563	2,741	5,104	5,383
Facility rent	5,593	5,648	11,204	11,324
Total expenses	74,669	77,035	150,914	153,936
Income (loss) from operations	347	2,379	(4,194)	4,454
Other:				
Interest expense, net	5,056	5,750	9,856	11,494
Other expense (income)	267	(46)	330	234
Loss before income taxes	(4,976)	(3,325)	(14,380)	(7,274)
Income tax benefit	(1,940)	(1,297)	(5,608)	(2,837)
Net loss	$ (3,036)	$ (2,028)	$ (8,772)	$ (4,437)
Loss available for common shares:				
Net loss	$ (3,036)	$ (2,028)	$ (8,772)	$ (4,437)
Preferred stock dividends	(1,475)	(1,685)	(2,902)	(3,315)
Loss applicable to common shares	$ (4,511)	$ (3,713)	$(11,674)	$ (7,752)
Loss per common share (Note D):				
Basic and diluted	$ (0.62)	$ (0.51)	$ (1.61)	$ (1.07)

The accompanying notes are an integral part of the condensed consolidated financial statements.

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(Unaudited)
(dollars in thousands)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total
Stockholders' deficit, December 31, 1999	$ 146	$ 198,603	$ (183,746)	$ (38,525)	$ (23,522)
Preferred stock dividends	-	(3,315)	-	-	(3,315)
Net loss for the six months ended June 30, 2000	-	-	-	(4,437)	(4,437)
Stockholders' deficit, June 30, 2000	$ 146	$ 195,288	$ (183,746)	$ (42,962)	$ (31,274)

The accompanying notes are an integral part of the condensed consolidated financial statements.

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(dollars in thousands)

	For the six months ended June 30, 1999	2000
Operating activities:		
Net loss	$ (8,772)	$ (4,437)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	3,279	4,166
Amortization of deferred financing and other non-current assets	1,825	1,217
Amortization of prepaid management fee	600	600
Amortization of deferred income	(338)	(339)
Accretion of senior subordinated discount notes	5,732	6,372
Amortization of loan costs and fees (included in rental and interest expense)	78	72
Accretion of interest on capital lease obligation	1,655	1,788
	4,059	9,439
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(453)	925
Increase in prepaid expenses and other	(4,997)	(873)
Increase in deferred income taxes	-	(2,092)
Increase in accounts payable	2,841	4,191
Increase (decrease) in employee compensations and benefits	598	(958)
Increase (decrease) in accrued interest	53	(314)
Decrease in other accrued liabilities	(762)	(889)
(Increase) decrease in prepaid income taxes	(5,317)	2,608
Net cash provided (used) by operating activities	(3,978)	12,037
Investing activities:		
Additions to property and equipment	(7,114)	(3,654)
Additions to deferred financing and other non-current assets	(1,501)	(1)
Transfers (to) restricted cash, net	(300)	(306)
Net cash used by investing activities	(8,915)	(3,961)
Financing activities:		
Borrowings under revolving line of credit	18,000	-
Payments of long-term debt	(101)	(107)
Principal payments of capital lease obligation	(2,148)	(2,322)
Dividends paid on exchangeable preferred stock	(10)	(11)
Net cash provided (used) by financing activities	15,741	(2,440)
Net increase in cash and cash equivalents	2,848	5,636
Cash and cash equivalents, beginning of period	896	1,386
Cash and cash equivalents, end of period	$ 3,744	$ 7,022
Supplemental Disclosure:		
Interest paid	$ 2,891	$ 3,572
Income taxes paid	$ 113	$ 111
Accretion of preferred stock dividends	$ 2,892	$ 3,304

The accompanying notes are an integral part of the condensed consolidated financial statements.

A. General

Harborside Healthcare Corporation and its subsidiaries (the "Company") operate long-term care facilities and, until September 1999, provided rehabilitation therapy services to non-affiliated long-term care facilities (See Note E). As of June 30, 2000, the Company owned twenty-two facilities, operated twenty-seven additional facilities under various leases and managed one facility. The Company accounts for its investment in one 75% owned facility using the equity method of accounting.

B. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's filing on Form 10-K for the year ended December 31, 1999. In the opinion of management, the accompanying unaudited financial statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company's financial position as of June 30, 2000, the results of its operations for the three-month and six-month periods ended June 30, 1999 and 2000 and its cash flows for the six-month periods ended June 30, 1999 and 2000. The results of operations for the three-month and six-month periods ended June 30, 2000 are not necessarily indicative of the results which may be expected for the full year. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations"* included elsewhere in this report.

C. Significant Accounting Pronouncements

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - an interpretation of APB Opinion No. 25" ("FIN 44"). FIN 44 clarifies the application of APB Opinion No. 25 and among other issues clarifies the following: the definition of an employee for purposes of applying APB Opinion No. 25; the criteria for determining whether a plan qualifies as a noncompensatory plan; the accounting consequence of various modifications to the terms of previously fixed stock options or awards; and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain conclusions in FIN 44 cover specific events that occurred after either December 15, 1998 or January 12, 2000. The Company does not expect the application of FIN 44 to have a material impact on the Company's financial position or results of operations.

D. Loss Per Common Share

The following table sets forth the computation of basic and diluted loss per common share for the periods ended June 30, 1999 and 2000:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	2000	1999	2000
Numerator:				
Net loss	$ (3,036,000)	$ (2,028,000)	$ (8,772,000)	$ (4,437,000)
Preferred Stock dividends	(1,475,000)	(1,685,000)	(2,902,000)	(3,315,000)
Loss applicable to common shares	$ (4,511,000)	$ (3,713,000)	$ (11,674,000)	$ (7,752,000)
Denominator:				
Denominator for basic and diluted loss per common share – weighted average shares	7,261,332	7,261,332	7,261,332	7,261,332
Basic and diluted loss per common share	$ (0.62)	$ (0.51)	$ (1.61)	$ (1.07)

For the three month and six month periods ended June 30, 1999 and 2000, 652,848 and 625,510, respectively, of stock options were not included in the computation of diluted loss per common share because to do so would have been antidilutive.

E. Restructuring Costs

During the third quarter of 1999, the Company terminated its contracts to provide rehabilitative therapy services to non-affiliated long-term care facilities. The Company, through a wholly-owned subsidiary, had provided physical, speech and occupational therapy services to non-affiliated long-term care facilities since 1995. Significant changes in the contract therapy business, primarily related to reductions in Medicare reimbursement for therapy services caused by the Balanced Budget Act of 1997 led to this decision. The Company continues to provide rehabilitation therapy services to long-term care facilities which it owns and operates.

The Company's therapy services restructuring plan required the termination of approximately sixty rehabilitation therapy services employees and the closure of two regional offices. During the third quarter of 1999, the Company recorded a restructuring charge of approximately $5.7 million under this plan, most of which were non-cash in nature. The restructuring charge consisted of $2.5 million of uncollectible accounts receivable, $1.5 million of unamortized goodwill, $0.7 million of employee costs and approximately $1.0 million due to the write-off of other assets. As of March 31, 2000, the Company's restructuring reserve was fully utilized.

F. Condensed Consolidating Financial Information

Certain of the Company's subsidiaries are precluded from guaranteeing the debt of the parent company (the "Non-Guarantors"), based on current agreements in effect. The Company's remaining subsidiaries (the "Guarantors") are not restricted from serving as guarantors of the parent company debt. The Guarantors are comprised of Harborside Healthcare Limited Partnership, Belmont Nursing Center Corp., Orchard Ridge Nursing Center Corp., Oakhurst Manor Nursing Center Corp., Riverside Retirement Limited Partnership, Harborside Toledo Limited Partnership, Harborside Connecticut Limited Partnership, Harborside of Florida Limited Partnership, Harborside of Ohio Limited Partnership, Harborside Healthcare Baltimore Limited Partnership, Harborside of Cleveland Limited Partnership, Harborside of Dayton Limited Partnership, Harborside Massachusetts Limited Partnership, Harborside of Rhode Island Limited Partnership, Harborside North Toledo Limited Partnership, Harborside Healthcare Advisors Limited Partnership, Harborside Toledo Corp., KHI Corporation, Harborside Danbury Limited Partnership, Harborside Acquisition Limited Partnership V, Harborside Acquisition Limited Partnership VI, Harborside Acquisition Limited Partnership VII, Harborside Acquisition Limited Partnership VIII, Harborside Acquisition Limited Partnership IX, Harborside Acquisition Limited Partnership X, Sailors, Inc., New Jersey Harborside Corp., Bridgewater Assisted Living Limited Partnership, Maryland Harborside Corp., Harborside Homecare Limited Partnership, Harborside Rehabilitation Limited Partnership, Harborside Healthcare Network Limited Partnership and Harborside Health I Corporation.

The information which follows presents the condensed consolidating financial position as of December 31, 1999 and June 30, 2000; the condensed consolidating results of operations for the three-month and six-month periods ended June 30, 1999 and 2000; and the consolidating cash flows for the six-month periods ended June 30, 1999 and 2000 of (a) the parent company only ("the Parent"), (b) the combined Guarantors, (c) the combined Non-Guarantors, (d) eliminating entries and (e) the Company on a consolidated basis.

F. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
As of December 31, 1999
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 355	$ 1,031	$ -	$ 1,386
Accounts receivable, net of allowance	-	34,423	15,745	-	50,168
Intercompany receivable	137,614	-	-	(137,614)	-
Prepaid expenses and other	3,590	14,096	2,254	-	19,940
Prepaid income taxes	2,608	-	-	-	2,608
Deferred income taxes	2,150	250	-	-	2,400
Total current assets	145,962	49,124	19,030	(137,614)	76,502
Restricted cash	-	1,826	594	-	2,420
Investment in limited partnership	15,584	-	4,044	(19,628)	-
Property and equipment, net	-	146,976	19,350	-	166,326
Deferred financing and other non-current assets, net	10,749	3,416	1,381	-	15,546
Other assets, net	3,100	-	-	-	3,100
Note receivable	-	7,487	-	-	7,487
Deferred income taxes	71	11,781	-	-	11,852
Total assets	$ 175,466	$ 220,610	$ 44,399	$ (157,242)	$ 283,233
LIABILITIES					
Current liabilities:					
Current maturities of long-term debt	$ -	$ 22	$ 205	$ -	$ 227
Current portion of capital lease obligation	-	4,633	-	-	4,633
Note payable to affiliate	5,000	-	-	-	5,000
Accounts payable	-	6,879	2,449	-	9,328
Intercompany payable	-	109,511	11,766	(121,277)	-
Employee compensation and benefits	-	10,687	3,334	-	14,021
Other accrued liabilities	-	4,663	845	-	5,508
Accrued interest	4,342	12,584	-	(16,354)	572
Current portion of deferred income	-	-	-	677	677
Total current liabilities	9,342	148,979	18,599	(136,954)	39,966
Long-term portion of deferred income	-	893	2,211	(677)	2,427
Long-term debt	132,243	1,517	15,904	16,354	166,018
Long-term portion of capital lease obligation	-	50,067	-	-	50,067
Total liabilities	141,585	201,456	36,714	(121,277)	258,478
Exchangeable preferred stock, redeemable, $.01 par value with a liquidation value of $1,000 per share; 500,000 shares authorized; 48,277 shares issued and outstanding	48,277	-	-	-	48,277
STOCKHOLDERS' EQUITY (DEFICIT)					
Common stock, $.01 par value; 19,000,000 shares authorized; 7,261,332 shares issued and outstanding	146	2,569	3,885	(6,454)	146
Additional paid-in capital	198,377	-	-	226	198,603
Less common stock in treasury, at cost, 7,349,832 shares	(183,746)	-	-	-	(183,746)
Partners' equity	-	24,755	7,074	(31,829)	-
Accumulated deficit	(29,173)	(8,170)	(3,274)	2,092	(38,525)
Total stockholders' equity (deficit)	(14,396)	19,154	7,685	(35,965)	(23,522)
Total liabilities and stockholders' equity (deficit)	$ 175,466	$ 220,610	$ 44,399	$ (157,242)	$ 283,233

F. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
As of June 30, 2000
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 5,846	$ 1,176	$ -	$ 7,022
Accounts receivable, net of allowance	-	34,822	14,421	-	49,243
Intercompany receivable	130,297	-	-	(130,297)	-
Prepaid expenses and other	3,720	14,849	2,244	-	20,813
Deferred income taxes	2,400	-	-	-	2,400
Total current assets	136,417	55,517	17,841	(130,297)	79,478
Restricted cash	-	2,083	643	-	2,726
Investment in limited partnership	15,584	-	4,044	(19,628)	-
Property and equipment, net	-	146,438	19,376	-	165,814
Deferred financing and other non-current assets, net	9,846	3,154	1,258	-	14,258
Other assets, net	2,500	-	-	-	2,500
Note receivable	-	7,487	-	-	7,487
Deferred income taxes	11,852	2,092	-	-	13,944
Total assets	$176,199	$ 216,771	$ 43,162	$(149,925)	$ 286,207
LIABILITIES					
Current liabilities:					
Current maturities of long-term debt	$ -	$ 22	$ 216	$ -	$ 238
Current portion of capital lease obligation	-	4,790	-	-	4,790
Note payable to affiliate	5,000	-	-	-	5,000
Accounts payable	-	11,043	2,476	-	13,519
Intercompany payable	-	103,307	10,528	(113,835)	-
Employee compensation and benefits	-	10,002	3,061	-	13,063
Other accrued liabilities	-	3,721	898	-	4,619
Accrued interest	7,204	15,330	-	(22,276)	258
Current portion of deferred income	-	-	-	595	595
Total current liabilities	12,204	148,215	17,179	(135,516)	42,082
Long-term portion of deferred income	-	738	2,027	(595)	2,170
Long-term debt	132,243	1,958	15,795	22,276	172,272
Long-term portion of capital lease obligation	-	49,376	-	-	49,376
Total liabilities	144,447	200,287	35,001	(113,835)	265,900
Exchangeable preferred stock, redeemable, $.01 par value with a liquidation value of $1,000 per share; 500,000 shares authorized; 51,581 shares issued and outstanding	51,581	-	-	-	51,581
STOCKHOLDERS' EQUITY (DEFICIT)					
Common stock, $.01 par value; 19,000,000 shares authorized; 7,261,332 shares issued and outstanding	146	2,569	3,885	(6,454)	146
Additional paid-in capital	195,062	-	-	226	195,288
Less common stock in treasury, at cost, 7,349,832 shares	(183,746)	-	-	-	(183,746)
Partners' equity	-	24,755	7,074	(31,829)	-
Accumulated deficit	(31,291)	(10,840)	(2,798)	125	(42,962)
Total stockholders' equity (deficit)	(19,829)	16,484	8,161	(36,090)	(31,274)
Total liabilities and stockholders' equity (deficit)	$ 176,199	$ 216,771	$ 43,162	$(149,925)	$ 286,207

F. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
For the three months ended June 30, 1999
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ 17	$ 55,292	$ 24,068	$ (4,361)	$ 75,016
Expenses:					
Facility operating	-	45,197	20,511	(4,361)	61,347
General and administrative	16	4,573	-	-	4,589
Service charges paid to former affiliate	-	277	-	-	277
Amortization of prepaid management fee	300	-	-	-	300
Depreciation and amortization	406	1,742	415	-	2,563
Facility rent	-	3,479	2,114	-	5,593
Management fees paid to affiliates	-	(1,423)	1,423	-	-
Total expenses	722	53,845	24,463	(4,361)	74,669
Income (loss) from operations	(705)	1,447	(395)	-	347
Other:					
Interest expense, net	726	3,894	436	-	5,056
Other expense	-	-	-	267	267
Loss before income taxes	(1,431)	(2,447)	(831)	(267)	(4,976)
Income tax benefit	(558)	(954)	(324)	(104)	(1,940)
Net loss	$ (873)	$ (1,493)	$ (507)	$ (163)	$ (3,036)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
For the three months ended June 30, 2000
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ -	$ 54,123	$ 25,580	$ (289)	$ 79,414
Expenses:					
Facility operating	-	43,190	20,264	(289)	63,165
General and administrative	1	4,905	-	-	4,906
Service charges paid to former affiliate	-	275	-	-	275
Amortization of prepaid management fee	300	-	-	-	300
Depreciation and amortization	452	1,809	480	-	2,741
Facility rent	-	3,487	2,161	-	5,648
Management fees paid to affiliates	-	(1,496)	1,496	-	-
Total expenses	753	52,170	24,401	(289)	77,035
Income (loss) from operations	(753)	1,953	1,179	-	2,379
Other:					
Interest expense, net	988	4,340	422	-	5,750
Other income	-	-	-	(46)	(46)
Income (loss) before income taxes	(1,741)	(2,387)	757	46	(3,325)
Income taxes (benefit)	(678)	(906)	294	(7)	(1,297)
Net income (loss)	$ (1,063)	$ (1,481)	$ 463	$ 53	$ (2,028)

F. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
For the six months ended June 30, 1999
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ 24	$ 108,728	$ 47,217	$ (9,249)	$ 146,720
Expenses:					
Facility operating	-	92,886	40,415	(9,249)	124,052
General and administrative	26	9,355	-	-	9,381
Service charges paid to former affiliate	-	573	-	-	573
Amortization of prepaid management fee	600	-	-	-	600
Depreciation and amortization	780	3,487	837	-	5,104
Facility rent	-	6,947	4,257	-	11,204
Management fees paid to affiliates	-	(2,825)	2,825	-	-
Total expenses	1,406	110,423	48,334	(9,249)	150,914
Loss from operations	(1,382)	(1,695)	(1,117)	-	(4,194)
Other:					
Interest expense, net	1,423	7,567	866	-	9,856
Other expense	-	-	-	330	330
Loss before income taxes	(2,805)	(9,262)	(1,983)	(330)	(14,380)
Income tax benefit	(1,094)	(3,612)	(773)	(129)	(5,608)
Net loss	$ (1,711)	$ (5,650)	$ (1,210)	$ (201)	$ (8,772)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
For the six months ended June 30, 2000
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ -	$ 108,171	$ 50,755	$ (536)	$ 158,390
Expenses:					
Facility operating	-	86,372	40,862	(536)	126,698
General and administrative	7	9,374	-	-	9,381
Service charges paid to former affiliate	-	550	-	-	550
Amortization of prepaid management fee	600	-	-	-	600
Depreciation and amortization	904	3,526	953	-	5,383
Facility rent	-	7,002	4,322	-	11,324
Management fees paid to affiliates	-	(2,995)	2,995	-	-
Total expenses	1,511	103,829	49,132	(536)	153,936
Income (loss) from operations	(1,511)	4,342	1,623	-	4,454
Other:					
Interest expense, net	1,960	8,690	844	-	11,494
Other expense	-	-	-	234	234
Income (loss) before income taxes	(3,471)	(4,348)	779	(234)	(7,274)
Income taxes (benefit)	(1,353)	(1,678)	303	(109)	(2,837)
Net income (loss)	$ (2,118)	$ (2,670)	$ 476	$ (125)	$ (4,437)

F. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
For the six months ended June 30, 1999
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Operating activities:					
Net cash provided (used) by operating activities:	$ (10,433)	$ 2,697	$ 2,760	$ 998	$ (3,978)
Investing activities:					
Additions to property and equipment	-	(5,077)	(1,563)	(474)	(7,114)
Additions to deferred financing and other non-current assets	(1,646)	140	5	-	(1,501)
Transfers (to) from restricted cash, net	-	298	(74)	(524)	(300)
Net cash used by investing activities	(1,646)	(4,639)	(1,632)	(998)	(8,915)
Financing activities:					
Borrowings under revolving line of credit	18,000	-	-	-	18,000
Payments of long-term debt	-	(190)	89	-	(101)
Principal payments of capital lease obligation	-	(2,148)	-	-	(2,148)
Dividends paid on exchangeable preferred stock	(10)	-	-	-	(10)
Net cash (used) provided by financing activities	17,990	(2,338)	89	-	15,741
Net increase (decrease) in cash and cash equivalents	5,911	(4,280)	1,217	-	2,848
Cash and cash equivalents, beginning of period	51	99	746	-	896
Cash and cash equivalents, end of period	$ 5,962	$ (4,181)	$ 1,963	$ -	$ 3,744
Supplemental Disclosure:					
Interest paid	$ 417	$ 2,220	$ 254	$ -	$ 2,891
Income taxes paid	$ 113	$ -	$ -	$ -	$ 113
Accretion of preferred stock dividends	$ 2,892	$ -	$ -	$ -	$ 2,892

F. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
For the six months ended June 30, 2000
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Operating activities:					
Net cash provided by operating activities:	$ 12	$ 10,872	$ 1,153	$ -	$ 12,037
Investing activities:					
Additions to property and equipment	-	(2,793)	(861)	-	(3,654)
Additions to deferred financing and other non-current assets	(1)	-	-	-	(1)
Transfers (to) restricted cash, net	-	(257)	(49)	-	(306)
Net cash used by investing activities	(1)	(3,050)	(910)	-	(3,961)
Financing activities:					
Payments of long-term debt	-	(9)	(98)	-	(107)
Principal payments of capital lease obligation	-	(2,322)	-	-	(2,322)
Dividends paid on exchangeable preferred stock	(11)	-	-	-	(11)
Net cash used by financing activities	(11)	(2,331)	(98)	-	(2,440)
Net increase in cash and cash equivalents	-	5,491	145	-	5,636
Cash and cash equivalents, beginning of period	-	355	1,031	-	1,386
Cash and cash equivalents, end of period	$ -	$ 5,846	$ 1,176	$ -	$ 7,022
Supplemental Disclosure:					
Interest paid	$ 609	$ 2,701	$ 262	$ -	$ 3,572
Income taxes paid	$ 111	$ -	$ -	$ -	$ 111
Accretion of preferred stock dividends	$ 3,304	$ -	$ -	$ -	$ 3,304

Item 2.

MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements including those concerning Management's expectations regarding future financial performance and future events. These forward-looking statements involve significant risk and uncertainties, including those described herein and included under "Special Note Regarding Forward-Looking Statements" below. Actual results may differ materially from those anticipated by such forward-looking statements.

OVERVIEW

Harborside Healthcare Corporation, ("Harborside" or the "Company") is a leading provider of high-quality long-term care and specialty medical services in the eastern United States. The Company has focused on establishing strong local market positions with high-quality facilities in four principal regions: the Southeast (Florida), the Midwest (Ohio and Indiana), New England (Connecticut, Massachusetts, New Hampshire and Rhode Island) and the Mid-Atlantic (New Jersey and Maryland). As of June 30, 2000, the Company operated 50 facilities (22 owned, 27 leased and one managed) with a total of 6,124 licensed beds. As described in Note A to the unaudited condensed consolidated financial statements included elsewhere in this report, the Company accounts for its investment in one of its owned facilities using the equity method of accounting. The Company provides a broad continuum of medical services including: (i) traditional skilled nursing care and (ii) specialty medical services, including a variety of subacute care programs such as orthopedic rehabilitation, CVA/stroke care, cardiac recovery, pulmonary rehabilitation and wound care, as well as distinct programs for the provision of care to Alzheimer's and hospice patients. As part of its subacute services, the Company provides physical, occupational and speech rehabilitation therapy services at Company-operated facilities. Beginning in 1995 and continuing through September 1999, the Company also provided rehabilitation therapy services under contracts with non-affiliated long-term care facilities through a wholly-owned subsidiary. During the third quarter of 1999, the Company terminated all of its contracts with non-affiliated facilities and ceased providing therapy services to non-affiliated facilities. During the third quarter of 1999, the Company recorded a $5.7 million charge in connection with the termination of these rehabilitation therapy contracts with non-affiliated facilities. (See Note E to the Company's unaudited condensed consolidated financial statements included elsewhere in this report.)

The following table sets forth the number of facilities and the number of licensed beds operated by the Company:

	As of June 30,	
	1999	2000
Facilities operated (1)	50	50
Licensed beds (1)	6,124	6,124

The following table sets forth certain operating data for the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
	1999	2000	1999	2000
Patient days (2):				
Private and other	122,052	112,280	246,081	227,249
Medicare	56,068	60,427	106,810	123,120
Medicaid	305,068	309,382	608,858	618,648
Total	483,188	482,089	961,749	969,017
Total net revenues:				
Private and other	29.6%	25.8%	30.2%	26.3%
Medicare	22.0%	25.7%	21.5%	25.2%
Medicaid	48.4%	48.5%	48.3%	48.5%
Total	100.0%	100.0%	100.0%	100.0%
Average Occupancy Rate (3)	90.5%	89.9%	90.6%	90.4%
Quality Mix (4)	51.6%	51.5%	51.7%	51.5%

(1) Includes one managed facility with 106 licensed beds on June 30, 1999 and June 30, 2000.
(2) "Patient Days" includes billed bed days for the facilities operated by the Company excluding billed bed days of the managed facility and the facility accounted for using the equity method of accounting.
(3) "Average occupancy rate" is computed by dividing the number of billed bed days by the total number of available licensed bed days during each of the periods indicated. This calculation includes all facilities operated by the Company excluding the managed facility.
(4) "Quality Mix" consists of the percentage of the Company's total net revenues which are derived from Medicare, commercial insurers and other private payors.

RESULTS OF OPERATIONS

The Company's total net revenues include net patient service revenues, and beginning in 1995, rehabilitation therapy service revenues from contracts with non-affiliated long-term care facilities until the third quarter of 1999 when these contracts were terminated. (See Note E to the Company's condensed consolidated financial statements included elsewhere in this report.) The Company derives its net patient service revenues primarily from private pay sources, the federal Medicare program for certain elderly and disabled patients, and state Medicaid programs for indigent patients. Private net patient service revenues are recorded at established per diem billing rates. Net patient service revenues to be reimbursed under contracts with third-party payors, primarily the Medicare and Medicaid programs, are recorded at amounts estimated to be realized under these contractual arrangements.

The Company's facility operating expenses consist primarily of payroll and employee benefits related to nursing, housekeeping and dietary services provided to patients, as well as maintenance and administration of the facilities. Other significant facility operating expenses include the cost of rehabilitation therapy services, medical and pharmacy supplies, food, utilities, insurance and taxes. The Company's general and administrative expenses include all costs associated with its regional and corporate operations.

Three Months Ended June 30, 1999 Compared to Three Months Ended June 30, 2000

Total Net Revenues. Total net revenues increased by $4,398,000 or 5.9%, from $75,016,000 in the second quarter of 1999 to $79,414,000 in the second quarter of 2000. The increase in total revenues from 1999 to 2000 was primarily the result of higher average revenues per patient day. The average occupancy rate at all of the Company's facilities decreased from 90.5% during the second quarter of 1999 to 89.9% during the second quarter of 2000. Average net patient service revenues per patient day at the Company's facilities increased from $151.57 in the second quarter of 1999 to $162.70 in the second quarter of 2000. The Company's average Medicare Part A per diem rate increased from $286.35 per Medicare patient day in the second quarter of 1999 to $320.71 per Medicare patient day in the second quarter of 2000, while the Company's average per diem Medicaid rate increased from $119.08 in the second quarter of 1999 to $124.58 in the second quarter of 2000. In accordance with provisions of the Balanced Budget Refinement Act of 1999, the Company elected to have fourteen of its facilities waive their remaining transition period available under Medicare's current prospective payment reimbursement system. Effective January 1, 2000, these fourteen facilities began to be reimbursed at the Federal per diem payment rate for paid Medicare days. Additionally, the Balanced Budget Refinement Act of 1999 temporarily increased the Federal per diem rates by 20 percent for fifteen acuity categories beginning on April 1, 2000. These increased rates will stay in effect until the later of October 1, 2000 or the date on which the Health Care Financing Administration implements a revised PPS system that more accurately reimburses the costs of caring for medically complex patients. The Company believes that it is unlikely that a new PPS system will be implemented prior to October 1, 2001. Primarily as the result of electing to move fourteen facilities to the Federal per diem rate and the rate increases implemented on April 1, 2000, the Company's average Medicare Part A payment rate increased from $286.35 per Medicare patient day during the second quarter of 1999 to $320.71 per Medicare patient day during the second quarter of 2000. The Company's quality mix of private, Medicare and insurance revenues was 51.6% for the three months ended June 30, 1999 as compared to 51.5% during the same period of 2000.

Facility Operating Expenses. Facility operating expenses increased by $1,818,000, or 3.0%, from $61,347,000 in the second quarter of 1999 to $63,165,000 in the second quarter of 2000. The overall increase in operating expenses in 2000 was primarily the result of higher expenditures for employee benefit costs and temporary nursing personnel. The increase in employee benefits costs is driven primarily by higher costs associated with maintaining the Company's health insurance plan. Management's discussions with benefit consultants have convinced management that inflationary pressures will increase the cost of the Company's health plan at an annual rate of 10 to 15 percent for at least the next year. Consistent with other long-term care providers, the Company continues to find it difficult to recruit and retain employees, most notably nursing personnel. As a result of these difficulties, the Company has been forced to rely more heavily on temporary nursing personnel. The expense associated with temporary nursing personnel increased by 28% from the second quarter of 1999 to the second quarter of 2000.

General and Administrative; Service Charges Paid to Former Affiliate. General and administrative expenses increased by $317,000, or 6.9% from $4,589,000 in the second quarter of 1999 to $4,906,000 in the second quarter of 2000. The Company reimburses a former affiliate for data processing services provided to the Company. During the second quarter of 1999, such reimbursements totaled $277,000 compared to $275,000 during the second quarter of 2000.

Depreciation and Amortization. Depreciation and amortization increased from $2,563,000 in the second quarter of 1999 to $2,741,000 in the second quarter of 2000 primarily due to the amortization of costs in connection with obtaining the amendment of the Company's New Credit Facility in the first quarter of 1999.

Amortization of Prepaid Management Fees. Amortization of prepaid management fees was $300,000 during the second quarter of 1999 and the second quarter of 2000.

Facility Rent. Facility rent expense for the second quarter increased by $55,000 from $5,593,000 in 1999 to $5,648,000 in 2000.

Interest Expense, net. Interest expense, net, increased from $5,056,000 in the second quarter of 1999 to $5,750,000 in the second quarter of 2000. This increase is the result of higher outstanding balances in 2000 with respect to both the Company's 11% Senior Subordinated Discount Notes (the "Discount Notes") and its revolving credit facility. The Company issued $99.5 million of Discount Notes in August 1998. The interest associated with the Discount Notes accretes until August 1, 2003 and then becomes payable in cash, semi-annually in arrears, beginning on February 1, 2004. As of June 30, 2000, the Discount Notes had accreted to a balance of $122,219,000. Additionally, as of June 30, 1999, the Company had $30,750,000 outstanding on its revolving credit facility as opposed to $32,750,000 as of June 30, 2000. The Company has not made additional borrowings on its revolving credit facility since July 7, 1999.

Income Tax Benefit. As a result of losses incurred in the second quarters of 1999 and 2000, income tax benefits of $1,940,000 and $1,297,000, respectively, were recognized for those periods.

Net Loss. The net loss decreased from $3,036,000 in the second quarter of 1999 to $2,028,000 in the second quarter of 2000.

Six Months Ended June 30, 1999 Compared to Six Months Ended June 30, 2000

Total Net Revenues. Total net revenues increased by $11,670,000 or 8.0%, from $146,720,000 in the first half of 1999 to $158,390,000 in the first half of 2000. The increase in total revenues from 1999 to 2000 was primarily the result of higher average revenues per patient day. The average occupancy rate at all of the Company's facilities decreased from 90.6% during the first half of 1999 to 90.4% during the first half of 2000. Average net patient service revenues per patient day at the Company's facilities increased from $149.23 in the first half of 1999 to $161.45 in the first half of 2000. The Company's average Medicare Part A per diem rate increased from $285.88 per Medicare patient day in the first half of 1999 to $308.97 per Medicare patient day in the first half of 2000, while the Company's average per diem Medicaid rate increased from $116.80 in the first half of 1999 to $124.22 in the first half of 2000. In accordance with provisions of the Balanced Budget Refinement Act of 1999, the Company elected to have fourteen of its facilities waive their remaining transition period available under Medicare's current prospective payment reimbursement system. Effective January 1, 2000, these fourteen facilities began to be reimbursed at the Federal per diem payment rate for paid Medicare days. Additionally, the Balanced Budget Refinement Act of 1999 temporarily increased the Federal per diem rates by 20 percent for fifteen acuity categories beginning on April 1, 2000. These increased rates will stay in effect until the later of October 1, 2000 or the date on which the Health Care Financing Administration implements a revised PPS system that more accurately reimburses the costs of caring for medically complex patients. The Company believes that it is unlikely that a new PPS system will be implemented prior to October 1, 2001. Primarily as the result of electing to move fourteen facilities to the Federal per diem rate and the rate increases implemented on April 1, 2000, the Company's average Medicare Part A payment rate increased from $285.88 per Medicare patient day during the first half of 1999 to $308.97 per Medicare patient day during the first half of 2000. The Company's quality mix of private, Medicare and insurance revenues was 51.7% for the six months ended June 30, 1999 as compared to 51.5% during the same period of 2000.

Facility Operating Expenses. Facility operating expenses increased by $2,646,000, or 2.1%, from $124,052,000 in the first half of 1999 to $126,698,000 in the first half of 2000. The overall increase in operating expenses was primarily the result of higher expenditures for employee benefit costs and temporary nursing personnel. The increase in employee benefits costs is driven primarily by higher costs associated with maintaining the Company's health insurance plan. Management's discussions with benefit consultants have convinced management that inflationary pressures will increase the cost of the Company's health plan at an annual rate of 10 to 15 percent for at least the next year. Consistent with other long-term care providers, the Company continues to find it difficult to recruit and retain employees, most notably nursing personnel. As a result of these difficulties, the Company has been forced to rely more heavily on temporary nursing personnel. The expense associated with temporary nursing personnel increased by 13% from the first half of 1999 to the first half of 2000.

General and Administrative; Service Charges Paid to Former Affiliate. General and administrative expenses were $9,381,000 in both the first half of 1999 and the first half of 2000. During the first quarter of 1999, the Company recorded a $700,000 charge for costs associated with the termination of an acquisition which the Company had begun reviewing in the latter half of 1998. Excluding the non-recurring charge in 1999, the net increase in general and administrative expenses in the first half of 2000 is the result of higher benefit costs. The Company reimburses a former affiliate for data processing services provided to the Company. During the first half of 1999, such reimbursements totaled $573,000 compared to $550,000 during the first half of 2000.

Depreciation and Amortization. Depreciation and amortization increased from $5,104,000 in the first half of 1999 to $5,383,000 in the first half of 2000 primarily due to the amortization of costs in connection with obtaining the amendment of the Company's New Credit Facility in the first quarter of 1999.

Amortization of Prepaid Management Fees. Amortization of prepaid management fees was $600,000 during the first half of 1999 and the first half of 2000.

Facility Rent. Facility rent expense for the first half increased by $120,000 from $11,204,000 in 1999 to $11,324,000 in 2000.

Interest Expense, net. Interest expense, net, increased from $9,856,000 in the first half of 1999 to $11,494,000 in the first half of 2000. This increase is the result of higher outstanding balances in 2000 with respect to both the Company's 11% Senior Subordinated Discount Notes (the "Discount Notes") and its revolving credit facility. The Company issued $99.5 million of Discount Notes in August 1998. The interest associated with the Discount Notes accretes until August 1, 2003 and then becomes payable in cash, semi-annually in arrears, beginning on February 1, 2004. As of June 30, 2000, the Discount Notes had accreted to a balance of $122,219,000. Additionally, as of June 30, 1999, the Company had $30,750,000 outstanding on its revolving credit facility as opposed to $32,750,000 as of June 30, 2000. The Company has not made additional borrowings on its revolving credit facility since July 7, 1999.

Income Tax Benefit. As a result of losses incurred in the first six months of 1999 and 2000, income tax benefits of $5,608,000 and $2,837,000, respectively, were recognized for those periods.

Net Loss. The net loss decreased from $8,772,000 in the first half of 1999 to $4,437,000 in the first half of 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash needs are for acquisitions, capital expenditures, working capital, debt service and general corporate purposes. The Company has historically financed these requirements primarily through a combination of internally generated cash flow, mortgage financing and operating leases, in addition to funds borrowed under a credit facility. In addition, in 1996 the Company financed the acquisition of four facilities located in Ohio by means of leases which are accounted for as capital leases for financial reporting purposes. The Company's existing leased facilities are leased from either the owner of the facilities, from a real estate investment trust which has purchased the facilities from the owner, or through synthetic lease borrowings. The Company's existing facility leases generally require it to make monthly lease payments and pay all property operating costs. The Company generally negotiates leases which provide for extensions beyond the initial lease term and an option to purchase the leased facility. In some cases, the option to purchase the leased facility is at a price based on the fair market value of the facility at the time the option is exercised. In other cases, the lease for the facility sets forth a fixed purchase option price which the Company believes is equal to the fair market value of the facility at the inception date of such lease, thus allowing the Company to realize the value appreciation of the facility while maintaining financial flexibility.

In connection with the leveraged recapitalization completed on August 11, 1998, the Company obtained gross proceeds of $99.5 million through the issuance of 11% Senior Subordinated Discount Notes (the "Discount Notes") due 2008 and $40 million through the issuance of 13.5% Exchangeable Preferred Stock (the "Preferred Stock") mandatorily redeemable in 2010. Interest on the Discount Notes accretes at 11% per annum until August 1, 2003 and then becomes payable in cash, semi-annually in arrears, beginning on February 1, 2004. Dividends on the Preferred Stock are payable, at the option of the Company, in additional shares of the Preferred Stock until August 1, 2003. After that date dividends may only be paid in cash. The Company does not expect to pay any cash dividends on the Preferred Stock prior to August 1, 2003. In August 1998, the Company also entered into a new $250 million collateralized credit facility (the "New Credit Facility"). The terms of the New Credit Facility provide up to $75 million on a revolving credit basis plus an additional $175 million initially funded on a revolving basis that converts to a term loan on an annual basis on each anniversary of the closing. During the first four years of the New Credit Facility, any or all of the full $250 million of availability under the New Credit Facility may be used for synthetic lease financings. Proceeds of loans under the New Credit Facility may be used for acquisitions, working capital purposes, capital expenditures and general corporate purposes. Interest is based on either LIBOR or prime rates of interest (plus applicable margins determined by the Company's leverage ratio) at the election of the Company. The New Credit Facility contains various financial and other restrictive covenants and limits aggregate borrowings under the New Credit Facility to a predetermined multiple of EBITDA.

As noted above, the Company, through a wholly-owned limited partnership, leases and operates four facilities in Ohio (the "Cleveland Facilities") which it acquired in 1996 through capital leases. Each lease is guaranteed by the Company. The guaranty provides that failure by the Company to have a specified minimum consolidated net worth at the end of any two consecutive quarters is an event of default under the guaranty, which in turn would be an event of default under each lease. During the third quarter of 1999, the Company recorded a $5.7 million restructuring charge to terminate its contracts to provide rehabilitation therapy services to non-affiliated long-term care facilities. As a result of this restructuring charge, the Company's consolidated net worth as of September 30, 1999 (as calculated for purposes of this requirement) had fallen below the required level. The Company anticipated that its net worth would continue to be below the required level at December 31, 1999, as a result of which the Company would have been in default under each of these leases and could have faced the loss of these operations. Such a default could also have triggered cross-defaults under the Company's other lease and debt obligations. In December of 1999, the Company paid $5 million to the landlord of the Cleveland Facilities and obtained an option (the "New Option") to acquire these facilities. The Company borrowed $5 million from an affiliate of Investcorp S.A. to fund this payment. The Company already held an option to acquire these facilities during a limited period beginning July 1, 2001. The New Option allowed the Company to exercise its right to purchase the Cleveland Facilities beginning as of the date of the New Option. The Company exercised the New Option on June 30, 2000. The New Option requires the Company to complete the acquisition prior to December 31, 2000 and provides a waiver of the net worth covenant through that date. The Company intends to assign its purchase rights to an investment entity organized by Investcorp and enter into an operating lease of the Cleveland Facilities by December 31, 2000. The $5 million payment made to obtain the New Option will be applied to the purchase price of the Cleveland Facilities, or forfeited if the acquisition is not completed. If the Company cannot complete the refinancing of the Cleveland Facilities by December 31, 2000, the Company would also be required to make an additional payment of $3,000,000 to the landlord, and the Company could potentially face the loss of the Cleveland Facilities. Although no assurances can be given in this regard, the Company believes that it will be able to complete the refinancing of the Cleveland Facilities within the required time period.

During the first quarter of 1999, the Company determined that its anticipated financial results for that quarter would cause the Company to be out of compliance with certain financial covenants of the New Credit Facility. The Company's reduced level of earnings before interest, taxes, depreciation and amortization ("EBITDA") during the first quarter of 1999 was attributable to transitional difficulties associated with the implementation of the new Medicare prospective payment system which became effective at all of the Company's facilities on January 1, 1999. Such transitional difficulties resulted in lower than expected revenues, primarily due to fewer than expected Medicare patient days, lower Medicare Part A rates, reduced revenues from therapy services provided to non-affiliated long-term care centers, and a reduction in revenues from the provision of Medicare Part B services at the Company's own facilities. In response, during the first quarter of 1999, the Company initiated additional facility-based training directed towards the documentation requirements of the revised Medicare reimbursement system. The Company also continued to refine its admission and assessment protocols in order to increase patient admissions and introduced a series of targeted initiatives to lower operating expenses. Such initiatives included wage and staffing reductions (primarily related to the delivery of rehabilitative therapy services and indirect nursing support), renegotiation of vendor contracts and ongoing efforts to reduce the Company's reliance on outside nurse agency personnel. All of the staffing reductions were implemented, on or prior to, April 1, 1999. Effective March 30, 1999, the Company obtained an amendment (the "Amendment") to the New Credit Facility which limits borrowings under the New Credit Facility to an aggregate of $58,500,000 (exclusive of undrawn letters of credit outstanding as of March 30, 1999) and which modified certain financial covenants. Beginning with the first quarter of 1999, the Amendment replaced the original financial covenants with one new financial covenant, a minimum cumulative amount of EBITDA. The original financial covenants provided maximum ratios of total indebtedness to EBITDA and senior indebtedness to EBITDA, and a minimum debt service coverage ratio. The Amendment requires minimum amounts of EBITDA, measured quarterly, but calculated on a rolling twelve-month basis, through December 31, 2000. As long as the Company meets or exceeds the required minimum cumulative amounts of EBITDA, the Company may access the New Credit Facility for general corporate purposes, subject to the reduced amount of availability. As of June 30, 2000, total borrowings under the New Credit Facility were $52,019,000 and consisted of $32,750,000 of revolver loans, $13,700,000 of synthetic lease obligations and $5,569,000 of undrawn letters of credit. As of June 30, 2000, the Company had approximately

$9,000,000 of funding available under the New Credit Facility and was not in default of the financial covenants of the New Credit Facility. The Amendment provides minimum EBITDA targets only through December 31, 2000. The Amendment also provides that the Company will have access to the New Credit Facility if the Company is in compliance with specified maximum ratios of total indebtedness to EBITDA, senior indebtedness to EBITDA, and a minimum debt service coverage ratio, such ratios to be calculated by annualizing the actual amounts of EBITDA achieved by the Company in either (a) the second and third quarters of 2000, or (b) the third and fourth quarters of 2000. Continued access to the New Credit Facility is then dependent on the Company maintaining compliance with financial ratio requirements. Since the covenant allowing the Company to maintain compliance through the achievement of required minimum cumulative amounts of EBITDA expires as of December 31, 2000, the Company must be able to achieve compliance with the alternate financial ratios by that date, or it may have to seek additional modifications to the New Credit Facility.

The Company's operating activities during the first half of 1999 used net cash of $3,978,000 as compared to generating net cash of $12,037,000 in the first half of 2000, an improvement of $16,015,000. Cash flows from operations in 2000 increased primarily as the result of a lower net loss, higher levels of non-cash expenses in 2000 (including depreciation, amortization and accretion of interest on the Company's Discount Notes), and the receipt of a federal income tax refund of approximately $3,000,000.

Net cash used by investing activities decreased from $8,915,000 during the first half of 1999 to $3,961,000 for the same period in 2000. The primary use of cash for investing purposes during 1999 was to fund additions to property and equipment associated with the maintenance of the Company's existing facilities and the development of its data processing capabilities. Additionally, during the first quarter of 1999, approximately $1,000,000 was expended in connection with obtaining the amendment of the Company's New Credit Facility. The primary use of cash for investing purposes during 2000 has been to fund additions to property and equipment associated with the maintenance of the Company's nursing facilities. The Company has made a concerted effort to minimize its capital expenditures without compromising the quality of its facilities.

Net cash provided by financing activities decreased from net cash provided of $15,741,000 in 1999 to net cash used of $2,440,000 in 2000. This decrease was due to the fact that during the first six months of 1999 the Company borrowed $18,000,000 under the New Credit Facility as compared to no new borrowings during the first six months of 2000. The Company has not drawn on its revolving credit facility since July 7, 1999.

In addition to the Discount Notes, as of June 30, 2000, the Company had two mortgage loans outstanding totaling $17,541,000 and $32,750,000 in advances on its New Credit Facility. One mortgage loan had an outstanding principal balance of $16,011,000 of which $15,140,000 is due at maturity in 2004. This loan bears interest at an annual rate of 10.65% plus additional interest equal to 0.3% of the difference between the annual operating revenues of the four mortgaged facilities and actual revenues during the twelve-month base period. The Company's other mortgage loan, which encumbers a single facility, had an outstanding principal balance of $1,530,000 at June 30, 2000, of which $1,338,000 is due in 2010.

Harborside expects that its capital expenditures for 2000, excluding acquisitions of new long-term care facilities, will aggregate approximately $8,000,000. Harborside's expected capital expenditures will relate to maintenance capital expenditures, systems enhancements, special construction projects and other capital improvements. Harborside expects that its future facility acquisitions will be financed with borrowings under the New Credit Facility, direct operating leases or assumed debt. Harborside may be required to obtain additional equity in order to finance any significant acquisitions in the future.

In November 1999, the "Balanced Budget Refinement Act" (the "BBRA") was signed into law. The BBRA was designed to mitigate some of the effects of the BBA. The BBRA allowed skilled nursing facilities to elect transition to the full federal per diem rate at the beginning of their cost reporting periods for cost periods beginning on or after January 1, 2000. Using the election allowed by the BBRA, the Company chose to move fourteen facilities to the full federal per diem rate effective January 1, 2000. As a result, the Company now uses the full federal per diem rate to calculate Medicare revenue at twenty-three of its skilled nursing facilities. Additionally, the BBRA temporarily increased the federal per diem rates by 20% for fifteen acuity categories beginning on April 1, 2000. These increased rates will stay in effect until the later of (a) October 1, 2000 or (b) the date HCFA implements a revised PPS system that more accurately reimburses the costs of caring for medically complex patients. The BBRA also provides for a four percent increase in the federal per diem rates for all acuity categories for a two-year period beginning October 1, 2000. The BBRA also excluded costs for certain supplies and services that were formerly required to be reimbursed by a skilled nursing facility's PPS rate. The BBRA also eliminated the annual provider limitations on Part B therapy charges per beneficiary for fiscal 2000 and 2001.

SEASONALITY

The Company's earnings generally fluctuate from quarter to quarter. This seasonality is related to a combination of factors which include the timing and amount of Medicaid rate increases, seasonal census cycles, and the number of days in a given fiscal quarter.

INFLATION

The healthcare industry is labor intensive. Wages and other labor related costs are especially sensitive to inflation. Certain of the Company's other expense items, such as supplies and real estate costs are also sensitive to inflationary pressures. Shortages in the labor market or general inflationary pressure could have a significant effect on the Company. In addition, suppliers pass along rising costs to the Company in the form of higher prices. When faced with increases in operating costs, the Company has sought to increase its charges for services and its requests for reimbursement from government programs. The Company's private pay customers and third party reimbursement sources may be less able to absorb increased prices for the Company's services. The Company's operations could be adversely affected if it is unable to recover future cost increases or experiences significant delays in increasing rates of reimbursement of its labor or other costs from Medicare and Medicaid revenue sources.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q, including information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", constitute "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). The Company desires to take advantage of certain "safe harbor" provisions of the Reform Act and is including this special note to enable the Company to do so. Forward-looking statements included in this Form 10-Q, or hereafter included in other publicly available documents filed with the Securities and Exchange Commission, reports to the Company's stockholders and other publicly available statements issued or released by the Company involve known and unknown risks, uncertainties, and other factors which could cause the Company's actual results, performance (financial or operating) or achievements to differ materially from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. The Company believes the following important factors could cause such a material difference to occur:

1. The Company's ability to grow through the acquisition and development of long-term care facilities or the acquisition of ancillary businesses.

2. The Company's ability to identify suitable acquisition candidates, to consummate or complete construction projects, or to profitably operate or successfully integrate enterprises into the Company's other operations.

3. The occurrence of changes in the mix of payment sources utilized by the Company's patients to pay for the Company's services.

4. The adoption of cost containment measures by private pay sources such as commercial insurers and managed care organizations, as well as efforts by governmental reimbursement sources to impose cost containment measures.

5. Changes in the United States healthcare system, including changes in reimbursement levels and the method of reimbursement, under Medicaid and Medicare, and other changes in applicable government regulations that might affect the profitability of the Company.

6. The Company's continued ability to operate in a heavily regulated environment and to satisfy regulatory authorities, thereby avoiding a number of potentially adverse consequences, such as the imposition of fines, temporary suspension of admission of patients, restrictions on the ability to acquire new facilities, suspension or decertification from Medicaid or Medicare programs, and in extreme cases, revocation of a facility's license or the closure of a facility, including as a result of unauthorized activities by employees.

7. The Company's ability to secure the capital and the related cost of such capital necessary to fund its future growth through acquisition and development, as well as internal growth.

8. Changes in certificate of need laws that might increase competition in the Company's industry, including, particularly, in the states in which the Company currently operates or anticipates operating in the future.

9. The Company's ability to staff its facilities appropriately with qualified healthcare personnel, including in times of shortages of such personnel and to maintain a satisfactory relationship with labor unions.

10. The level of competition in the Company's industry, including without limitation, increased competition from acute care hospitals, providers of assisted and independent living and providers of home healthcare and changes in the regulatory system in the state in which the Company operates that facilitate such competition.

11. The continued availability and pricing of insurance for the inherent risks of liability in the healthcare industry.

12. Price increases in pharmaceuticals, durable medical equipment and other items.

13. The Company's reputation for delivering high-quality care and its ability to attract and retain patients, including patients with relatively high acuity levels.

14. Changes in general economic conditions, including changes that pressure governmental reimbursement sources to reduce the amount and scope of healthcare coverage.

The foregoing review of significant factors should not be construed as exhaustive or as an admission regarding the adequacy of disclosures previously made by the Company.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Most of the Company's debt obligations bear interest at fixed rates and are not affected by changes in market interest rates; however, borrowings under the Company's New Credit Facility are sensitive to changes in interest rates. Under the New Credit Facility, interest is based on either LIBOR or prime rates of interest (plus applicable margins determined by the Company's leverage), at the Company's election. As the prime and LIBOR rates of interest increase, interest expense associated with the Company's borrowings under the New Credit Facility would also increase.

The Company did not experience significant changes in interest rates during the three months ended June 30, 2000. As part of the Company's risk management program, the Company continuously reviews its overall exposure to interest rate risk and evaluates the benefits of interest rate hedging through the use of derivative instruments, such as interest rate swaps. By entering into an interest rate swap, the Company can effectively transform variable rate debt into fixed rate debt. The Company did not have any interest rate swap arrangements outstanding during the six month periods ending June 30, 1999 or June 30, 2000.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 2. Changes in Securities
None

Item 3. Defaults upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders
None.

Item 5. Other Information
None.

SIGNATURES

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

Harborside Healthcare Corporation

By: /s/ Stephen L. Guillard
Stephen L. Guillard
Chairman, President, and Chief Executive Officer

By: /s/ William H. Stephan
William H. Stephan
Senior Vice President and Chief Financial Officer

DATE: August 14, 2000

<ARTICLE> 5 Exhibit 27.1

<LEGEND>

The schedule contains summary financial information extracted from the balance sheet and statement of operations and is qualified in its entirety to such financial statements.

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<FN>

<F1>Includes the following assets: prepaid expenses and other of $20,813, deferred income taxes--current of $2,400, deferred income taxes--long-term of $13,944, restricted cash of $2,726, deferred financing and other non-current assets, net, of $14,258, note receivable $7,487 and other assets, net, of $2,500.

<F2>Includes the following long-term liabilities: deferred income of $2,170, capital lease obligation of $49,376, and long-term debt of $172,272.

<F3>Includes the following equity accounts: additional paid-in capital of $195,288 treasury stock of ($183,746) and acccumulated deficit of ($42,962).

</FN>

</TABLE>