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 September 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 November 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) September 30, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,386	$ 8,024
Accounts receivable, net of allowances for doubtful accounts of $3,098 and $4,280 respectively	50,168	48,265
Prepaid expenses and other	19,940	12,713
Prepaid income taxes	2,608	-
Deferred income taxes	2,400	5,303
Total current assets	76,502	74,305
Restricted cash	2,420	4,578
Property and equipment, net	166,326	105,621
Deferred financing and other non-current assets, net	15,546	11,782
Other assets, net	3,100	2,200
Note receivable	7,487	7,487
Deferred income taxes	11,852	15,684
Total assets	$ 283,233	$ 221,657
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	$ 227	$ 244
Current portion of capital lease obligation	4,633	-
Note payable to affiliate	5,000	-
Accounts payable	9,328	10,316
Employee compensation and benefits	14,021	13,408
Other accrued liabilities	5,508	5,979
Accrued interest	572	574
Current portion of deferred income	677	554
Total current liabilities	39,966	31,075
Long-term portion of deferred income	2,427	2,042
Long-term debt	166,018	175,521
Long-term portion of capital lease obligation	50,067	-
Total liabilities	258,478	208,638
Exchangeable preferred stock, redeemable, $.01 par value with a liquidation value of $1,000 per share; 500,000 shares authorized; 48,277 and 53,320 issued and outstanding, respectively	48,277	53,320
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	193,547
Less common stock in treasury, at cost, 7,349,832 shares	(183,746)	(183,746)
Accumulated deficit	(38,525)	(50,248)
Total stockholders' deficit	(23,522)	(40,301)
Total liabilities and stockholders' deficit	$ 283,233	$ 221,657

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 September 30,		For the nine months ended September 30,	
	1999	2000	1999	2000
Total net revenues	$ 77,590	$ 80,927	$ 224,310	$ 239,317
Expenses:				
Facility operating	63,014	65,033	187,066	191,731
General and administrative	4,204	4,286	13,585	13,667
Service charges paid to former affiliate	307	295	880	845
Amortization of prepaid management fee	300	300	900	900
Depreciation and amortization	2,347	2,613	7,451	7,996
Facility rent	5,645	5,705	16,849	17,029
Restructuring costs	5,745	-	5,745	-
Loss on termination of capital lease	-	8,914	-	8,914
Total expenses	81,562	87,146	232,476	241,082
Loss from operations	(3,972)	(6,219)	(8,166)	(1,765)
Other:				
Interest expense, net	5,410	5,836	15,266	17,330
Other expense (income)	(141)	(111)	189	123
Loss before income taxes	(9,241)	(11,944)	(23,621)	(19,218)
Income tax benefit	(3,604)	(4,658)	(9,212)	(7,495)
Net loss	$ (5,637)	$ (7,286)	$ (14,409)	$ (11,723)
Loss available for common shares:				
Net loss	$ (5,637)	$ (7,286)	$ (14,409)	$ (11,723)
Preferred stock dividends	(1,525)	(1,741)	(4,427)	(5,056)
Loss applicable to common shares	$ (7,162)	$ (9,027)	$ (18,836)	$ (16,779)
Loss per common share (Note C):				
Basic and diluted	$ (0.99)	$ (1.24)	$ (2.59)	$ (2.31)

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	-	(5,056)	-	-	(5,056)
Net loss for the nine months ended September 30, 2000	-	-	-	(11,723)	(11,723)
Stockholders' deficit, September 30, 2000	$ 146	$ 193,547	$ (183,746)	$ (50,248)	$ (40,301)

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 nine months ended September 30,	
	1999	2000
Operating activities:		
Net loss	$ (14,409)	$ (11,723)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	5,053	6,168
Amortization of deferred financing and other non-current assets	2,398	1,828
Amortization of prepaid management fee	900	900
Amortization of deferred income	(507)	(508)
Accretion of senior subordinated discount notes	8,725	9,703
Amortization of loan costs and fees (included in rental and interest expense)	108	103
Accretion of interest on capital lease obligation	2,549	2,753
Write-off of goodwill and other assets related to restructuring	1,852	-
Loss on termination of capital lease	-	7,542
	6,669	16,766
Changes in operating assets and liabilities:		
Decrease in accounts receivable	2,172	1,903
(Increase) decrease in prepaid expenses and other	(5,046)	6,810
Increase in deferred income taxes	-	(3,832)
Increase in accounts payable	4,419	988
Decrease in employee compensations and benefits	(1,290)	(613)
Increase in accrued interest	176	2
Increase in other accrued liabilities	320	471
Increase in prepaid income taxes	(8,955)	(295)
Net cash provided (used) by operating activities	(1,535)	22,200
Investing activities:		
Additions to property and equipment	(10,672)	(5,123)
Additions to deferred financing and other non-current assets	(2,217)	(1)
Transfers (to) restricted cash, net	(32)	(2,158)
Net cash used by investing activities	(12,921)	(7,282)
Financing activities:		
Repayment of note payable to affiliate	-	(5,000)
Borrowings under revolving line of credit	20,000	-
Payments of long-term debt	(152)	(183)
Principal payments of capital lease obligation	(3,281)	(3,084)
Dividends paid on exchangeable preferred stock	(13)	(13)
Net cash provided (used) by financing activities	16,554	(8,280)
Net increase in cash and cash equivalents	2,098	6,638
Cash and cash equivalents, beginning of period	896	1,386
Cash and cash equivalents, end of period	$ 2,994	$ 8,024
Supplemental Disclosure:		
Interest paid	$ 4,370	$ 5,060
Income taxes paid	$ 155	$ 130
Accretion of preferred stock dividends	$ 4,414	$ 5,043

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 D). As of September 30, 2000, the Company owned eighteen facilities, operated thirty-one additional facilities under various operating 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 September 30, 2000, the results of its operations for the three-month and nine-month periods ended September 30, 1999 and 2000 and its cash flows for the nine-month periods ended September 30, 1999 and 2000. The results of operations for the three-month and nine-month periods ended September 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. Loss Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	2000	1999	2000
Numerator:				
Net loss	$ (5,637,000)	$ (7,286,000)	$ (14,409,000)	$ (11,723,000)
Preferred Stock dividends	(1,525,000)	(1,741,000)	(4,427,000)	(5,056,000)
Loss applicable to common shares	$ (7,162,000)	$ (9,027,000)	$ (18,836,000)	$ (16,779,000)
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	$ (0.99)	$ (1.24)	$ (2.59)	$ (2.31)

As of September 30, 1999 and 2000, the Company excluded a combined total of 652,848 and 774,494 shares, respectively, of stock options and restricted stock grants (see Note F) from the calculation of "diluted loss per common share" because these shares were antidilutive. Restricted stock grants accounted for 664,500 of the shares excluded at September 30, 2000; there were no restricted stock grants outstanding at September 30, 1999.

D. 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.

E. Loss on Termination of Capital Lease

Until September 27, 2000, the Company, through a wholly-owned limited partnership, leased and operated four facilities in Ohio (the "Cleveland Facilities") which it acquired in 1996 through capital leases. Each of the four leases contained an option to purchase the facility beginning July 1, 2001 and each lease was guaranteed by the Company. The guaranty provided that failure by the Company to have a specified minimum consolidated net worth at the end of any two consecutive quarters would be an event of default under the guaranty, which in turn would be an event of default under each lease. As a result of a restructuring charge (See Note D), 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, which would have resulted in an event of default under each of these leases with the Company potentially facing the loss of these operations. Such default could also have triggered cross-defaults under the Company's other lease and debt obligations. In December 1999, the Company paid $5 million to its landlord and obtained an option (the "New Option") to acquire the Cleveland Facilities. The Company borrowed $5 million from an affiliate of Investcorp S.A. to fund this payment. The New Option allowed the Company to exercise its right to purchase the Cleveland Facilities beginning as of the date of the New Option, required the Company to complete the acquisition prior to December 31, 2000 and provided a waiver of the net worth covenant through that date. The Company exercised the New Option on June 30, 2000.

On September 27, 2000, the Company terminated the Cleveland Facilities capital leases and assigned its purchase rights for these facilities to an investment entity organized by Investcorp, for $5.0 million, which simultaneously acquired the Cleveland Facilities. On that date, the Company entered into new operating leases for each of the Cleveland Facilities with combined annual rent expense of approximately $5.8 million. The Company used the proceeds of the purchase rights assignment to repay the $5.0 million note payable from an affiliate of Investcorp S.A. As a result of the capital lease termination, the Company recorded a non-recurring charge of $8.9 million. The principal components of this charge included the write-off of capital leased assets in excess of the related capital lease obligation ($5.7 million) and the write-off of deferred financing costs ($1.8 million) related to the Company's bank credit facility. In order to complete the Cleveland Facility leasing transaction, the Company was required to obtain the release of certain collateral held by the bank group. The Company obtained the release of the collateral as part of an amendment to the Company's credit facility, which also resulted in a permanent reduction of the Company's maximum borrowings under the credit facility from $250 million to $150 million and a twenty-five basis point increase in the Company's LIBOR-based borrowing rate. As a result of the permanent reduction in funds available through the credit facility, the Company was required to write-off a proportionate amount of the deferred financing costs incurred when the credit facility was originally obtained.

F. Restricted Stock

On September 29, 2000, the Company granted 664,500 shares of restricted Class C common stock (the "Restricted Shares") to employees of the Company. As part of this restricted stock issuance, 507,705 options granted on August 11, 1998 to purchase shares of the Company's Class C common stock at $25.00 per share were cancelled. The purpose of the restricted stock issuance was to better enable the Company to retain and motivate key employees. The Restricted Shares generally vest over varying periods of time through December 31, 2003. Unvested shares are restricted as to disposition and subject to forfeiture under certain circumstances. The value of the Restricted Shares on the date of grant was approximately $7,000.

G. 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 September 30, 2000; the condensed consolidating results of operations for the three-month and nine-month periods ended September 30, 1999 and 2000; and the consolidating cash flows for the nine-month periods ended September 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.

G. 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

G. Condensed Consolidating Financial Information (Continued)

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 6,616	$ 1,408	$ -	$ 8,024
Accounts receivable, net of allowance	-	33,635	14,630	-	48,265
Intercompany receivable	123,359	-	-	(123,359)	-
Prepaid expenses and other	3,438	7,765	1,510	-	12,713
Deferred income taxes	5,303	-	-	-	5,303
Total current assets	132,100	48,016	17,548	(123,359)	74,305
Restricted cash	-	3,926	652	-	4,578
Investment in limited partnership	15,584	-	4,044	(19,628)	-
Property and equipment, net	-	86,040	19,581	-	105,621
Deferred financing and other non-current assets, net	9,394	1,187	1,201	-	11,782
Other assets, net	2,200	-	-	-	2,200
Note receivable	-	7,487	-	-	7,487
Deferred income taxes	11,852	3,832	-	-	15,684
Total assets	$171,130	$ 150,488	$ 43,026	$(142,987)	$ 221,657
LIABILITIES					
Current liabilities:					
Current maturities of long-term debt	$ -	$ 19	$ 225	$ -	$ 244
Accounts payable	-	7,974	2,342	-	10,316
Intercompany payable	-	96,077	10,880	(106,957)	-
Employee compensation and benefits	-	10,592	2,816	-	13,408
Other accrued liabilities	-	4,558	1,421	-	5,979
Accrued interest	8,229	14,621	-	(22,276)	574
Current portion of deferred income	-	-	-	554	554
Total current liabilities	8,229	133,841	17,684	(128,679)	31,075
Long-term portion of deferred income	-	651	1,935	(544)	2,042
Long-term debt	132,243	5,267	15,735	22,276	175,521
Total liabilities	140,472	139,759	35,354	(106,947)	208,638
Exchangeable preferred stock, redeemable, $.01 par value with a liquidation value of $1,000 per share; 500,000 shares authorized; 53,320 shares issued and outstanding	53,320	-	-	-	53,320
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	193,320	1	-	226	193,547
cost, 7,349,832 shares	(183,746)	-	-	-	(183,746)
Partners' equity	-	24,755	7,074	(31,829)	-
Accumulated deficit	(32,382)	(16,596)	(3,287)	2,017	(50,248)
Total stockholders' equity (deficit)	(22,662)	10,729	7,672	(36,040)	(40,301)
Total liabilities and stockholders' equity (deficit)	$ 171,130	$ 150,488	$ 43,026	$(142,987)	$ 221,657

G. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
For the three months ended September 30, 1999 and 2000
(Unaudited)
(dollars in thousands)

For the three months ended September 30, 1999

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ -	$ 57,049	$ 24,579	$ (4,038)	$ 77,590
Expenses:					
Facility operating	-	46,712	20,340	(4,038)	63,014
General and administrative	17	4,187	-	-	4,204
Service charges paid to former affiliate	-	307	-	-	307
Amortization of prepaid management fee	300	-	-	-	300
Depreciation and amortization	420	1,473	454	-	2,347
Facility rent	-	3,533	2,112	-	5,645
Restructuring costs	-	5,745	-	-	5,745
Management fees paid to affiliates	-	(1,609)	1,609	-	-
Total expenses	737	60,348	24,515	(4,038)	81,562
Income (loss) from operations	(737)	(3,299)	64	-	(3,972)
Other:					
Interest expense, net	755	4,224	431	-	5,410
Other income	-	-	-	(141)	(141)
Income (loss) before income taxes	(1,492)	(7,523)	(367)	141	(9,241)
Income taxes (benefit)	(582)	(2,934)	(143)	55	(3,604)
Net income (loss)	$ (910)	$ (4,589)	$ (224)	$ 86	$ (5,637)

For the three months ended September 30, 2000

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ -	$ 56,042	$ 25,325	$ (440)	$ 80,927
Expenses:					
Facility operating	-	43,883	21,590	(440)	65,033
General and administrative	13	4,273	-	-	4,286
Service charges paid to former affiliate	-	295	-	-	295
Amortization of prepaid management fee	300	-	-	-	300
Depreciation and amortization	452	1,673	488	-	2,613
Facility rent	-	3,570	2,135	-	5,705
Loss on termination of capital lease	-	8,914	-	-	8,914
Management fees paid to affiliates	-	(1,499)	1,499	-	-
Total expenses	765	61,109	25,712	(440)	87,146
Income (loss) from operations	(765)	(5,067)	387	-	(6,219)
Other:					
Interest expense, net	1,025	4,397	414	-	5,836
Other income	-	-	-	(111)	(111)
Income (loss) before income taxes	(1,790)	(9,464)	(801)	111	(11,944)
Income taxes (benefit)	(699)	(3,708)	(312)	61	(4,658)
Net income (loss)	$ (1,091)	$ (5,756)	$ (489)	$ 50	$ (7,286)

G. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
For the nine months ended September 30, 1999 and 2000
(Unaudited)
(dollars in thousands)

For the nine months ended September 30, 1999

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ 24	$ 165,777	$ 71,796	$ (13,287)	$ 224,310
Expenses:					
Facility operating	-	139,598	60,755	(13,287)	187,066
General and administrative	43	13,542	-	-	13,585
Service charges paid to former affiliate	-	880	-	-	880
Amortization of prepaid management fee	900	-	-	-	900
Depreciation and amortization	1,200	4,960	1,291	-	7,451
Facility rent	-	10,480	6,369	-	16,849
Restructuring costs	-	5,745	-	-	5,745
Management fees paid to affiliates	-	(4,434)	4,434	-	-
Total expenses	2,143	170,771	72,849	(13,287)	232,476
Loss from operations	(2,119)	(4,994)	(1,053)	-	(8,166)
Other:					
Interest expense, net	2,178	11,791	1,297	-	15,266
Other expense	-	-	-	189	189
Loss before income taxes	(4,297)	(16,785)	(2,350)	(189)	(23,621)
Income tax benefit	(1,676)	(6,546)	(916)	(74)	(9,212)
Net loss	$ (2,621)	$ (10,239)	$ (1,434)	$ (115)	$ (14,409)

For the nine months ended September 30, 2000

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ -	$ 164,213	$ 76,080	$ (976)	$ 239,317
Expenses:					
Facility operating	-	130,255	62,452	(976)	191,731
General and administrative	20	13,647	-	-	13,667
Service charges paid to former affiliate	-	845	-	-	845
Amortization of prepaid management fee	900	-	-	-	900
Depreciation and amortization	1,356	5,199	1,441	-	7,996
Facility rent	-	10,572	6,457	-	17,029
Loss on the termination of capital lease	-	8,914	-	-	8,914
Management fees paid to affiliates	-	(4,494)	4,494	-	-
Total expenses	2,276	164,938	74,844	(976)	241,082
Income (loss) from operations	(2,276)	(725)	1,236	-	(1,765)
Other:					
Interest expense, net	2,985	13,087	1,258	-	17,330
Other expense	-	-	-	123	123
Loss before income taxes	(5,261)	(13,812)	(22)	(123)	(19,218)
Income tax benefit	(2,052)	(5,386)	(9)	(48)	(7,495)
Net loss	$ (3,209)	$ (8,426)	$ (13)	$ (75)	$ (11,723)

G. Condensed Consolidating Financial Information (Continued)

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Operating activities:					
Net cash provided (used) by operating activities:	$ (17,516)	$ 12,855	$ 2,128	$ 998	$ (1,535)
Investing activities:					
Additions to property and equipment	-	(8,364)	(1,834)	(474)	(10,672)
Additions to deferred financing and other non-current assets	(2,522)	311	(6)	-	(2,217)
Transfers (to) from restricted cash, net	-	596	(104)	(524)	(32)
Net cash used by investing activities	(2,522)	(7,457)	(1,944)	(998)	(12,921)
Financing activities:					
Borrowings under revolving line of credit	20,000	-	-	-	20,000
Payments of long-term debt	-	(286)	134	-	(152)
Principal payments of capital lease obligation	-	(3,281)	-	-	(3,281)
Dividends paid on exchangeable preferred stock	(13)	-	-	-	(13)
Net cash (used) provided by financing activities	19,987	(3,567)	134	-	16,554
Net increase (decrease) in cash and cash equivalents	(51)	1,831	318	-	2,098
Cash and cash equivalents, beginning of period	51	99	746	-	896
Cash and cash equivalents, end of period	$ -	$ 1,930	$ 1,064	$ -	$ 2,994
Supplemental Disclosure:					
Interest paid	$ 623	$ 3,376	$ 371	$ -	$ 4,370
Income taxes paid	$ 155	$ -	$ -	$ -	$ 155
Accretion of preferred stock dividends	$ 4,414	$ -	$ -	$ -	$ 4,414

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Operating activities:					
Net cash provided by operating activities:	$ 5,014	$ 15,099	$ 2,087	$ -	$ 22,200
Investing activities:					
Additions to property and equipment	-	(3,620)	(1,503)	-	(5,123)
Additions to deferred financing and other non-current assets	(1)	-	-	-	(1)
Transfers to restricted cash, net	-	(2,100)	(58)	-	(2,158)
Net cash used by investing activities	(1)	(5,720)	(1,561)	-	(7,282)
Financing activities:					
Repayment of note payable to affiliate	(5,000)	-	-	-	(5,000)
Payments of long-term debt	-	(34)	(149)	-	(183)
Principal payments of capital lease obligation	-	(3,084)	-	-	(3,084)
Dividends paid on exchangeable preferred stock	(13)	-	-	-	(13)
Net cash used by financing activities	(5,013)	(3,118)	(149)	-	(8,280)
Net increase in cash and cash equivalents	-	6,261	377	-	6,638
Cash and cash equivalents, beginning of period	-	355	1,031	-	1,386
Cash and cash equivalents, end of period	$ -	$ 6,616	$ 1,408	$ -	$ 8,024
Supplemental Disclosure:					
Interest paid	$ 872	$ 3,821	$ 367	$ -	$ 5,060
Income taxes paid	$ 130	$ -	$ -	$ -	$ 130
Accretion of preferred stock dividends	$ 5,043	$ -	$ -	$ -	$ 5,043

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 September 30, 2000, the Company operated 50 facilities (18 owned, 31 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 D 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 September 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 September 30,		For the nine months ended September 30,	
	1999	2000	1999	2000
Patient days (2):				
Private and other	122,245	115,761	368,292	343,010
Medicare	55,494	56,421	162,338	179,541
Medicaid	316,164	313,695	925,022	932,343
Total	493,903	485,877	1,455,652	1,454,894
Total net revenues:				
Private and other	28.2%	26.0%	29.5%	26.2%
Medicare	21.6%	23.8%	21.5%	24.7%
Medicaid	50.2%	50.2%	49.0%	49.1%
Total	100.0%	100.0%	100.0%	100.0%
Average Occupancy Rate (3)	91.4%	89.7%	90.9%	90.2%
Quality Mix (4)	49.8%	49.8%	51.0%	50.9%

(1) Includes one managed facility with 106 licensed beds on September 30, 1999 and September 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 D 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 September 30, 1999 Compared to Three Months Ended September 30, 2000

Total Net Revenues. Total net revenues increased by $3,337,000 or 4.3%, from $77,590,000 in the third quarter of 1999 to $80,927,000 in the third 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 91.4% during the third quarter of 1999 to 89.7% during the third quarter of 2000. Average net patient service revenues per patient day at the Company's facilities increased from $154 in the third quarter of 1999 to $164 in the third quarter of 2000. The Company's average Medicare Part A per diem rate increased from $296 per Medicare patient day in the third quarter of 1999 to $323 per Medicare patient day in the third quarter of 2000, while the Company's average per diem Medicaid rate increased from $123 in the third quarter of 1999 to $129 in the third 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 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 temporary Medicare rate increases implemented on April 1, 2000, the Company's average Medicare Part A payment rate increased from $296 per Medicare patient day during the third quarter of 1999 to $323 per Medicare patient day during the third quarter of 2000. The Company's quality mix of private, Medicare and insurance revenues was 49.8% for the three months ended September 30, 1999 and September 30, 2000.

Facility Operating Expenses. Facility operating expenses increased by $2,019,000, or 3.2%, from $63,014,000 in the third quarter of 1999 to $65,033,000 in the third 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 29.7% from the third quarter of 1999 to the third quarter of 2000.

General and Administrative; Service Charges Paid to Former Affiliate. General and administrative expenses increased by $82,000, or 2.0% from $4,204,000 in the third quarter of 1999 to $4,286,000 in the third quarter of 2000. The Company reimburses a former affiliate for data processing services provided to the Company. During the third quarter of 1999, such reimbursements totaled $307,000 compared to $295,000 during the third quarter of 2000.

Depreciation and Amortization. Depreciation and amortization increased from $2,347,000 in the third quarter of 1999 to $2,613,000 in the third quarter of 2000 primarily due to the depreciation of capital expenditures acquired in 2000.

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

Facility Rent. Facility rent expense for the third quarter increased by $60,000 from $5,645,000 in 1999 to $5,705,000 in 2000.

Interest Expense, net. Interest expense, net, increased from $5,410,000 in the third quarter of 1999 to $5,836,000 in the third quarter of 2000. This increase is the result of higher outstanding balances in 2000 with respect to the Company's 11% Senior Subordinated Discount Notes (the "Discount Notes"). 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 September 30, 2000, the Discount Notes had accreted to a balance of $125,550,000. Additionally, as of September 30, 1999 and 2000, the Company had $32,750,000 outstanding on its revolving credit facility. The Company has not made additional borrowings on its revolving credit facility since July 7, 1999.

Restructuring costs: In connection with the Company's therapy services restructuring plan, the Company incurred restructuring costs of $5,745,000 during the third quarter of 1999. The most significant components of this charge were the write-off of approximately $1.5 million of unamortized goodwill and a $2.5 million increase to the reserve for uncollectible receivables as a result of the Company's termination of non-affiliated contracts. (See Note D to the Company's condensed consolidated financial statements included elsewhere in this report.)

Loss on Termination of Capital Lease: In connection with the termination of a capital lease during the third quarter of 2000, the Company recorded a non-recurring charge of $8.9 million. The principal components of this charge included the write-off of capital leased assets in excess of the related capital lease obligation ($5.7 million) and the write-off of deferred financing costs ($1.8 million) related to the Company's bank credit facility. (See Note E to the Company's condensed consolidated financial statements included elsewhere in this report.)

Income Tax Benefit. As a result of losses incurred in the third quarters of 1999 and 2000, income tax benefits of $3,604,000 and $4,658,000, respectively, were recognized for those periods.

Net Loss. The net loss was $5,637,000 in the third quarter of 1999 as compared to $7,286,000 in the third quarter of 2000.

Nine Months Ended September 30, 1999 Compared to Nine Months Ended September 30, 2000

Total Net Revenues. Total net revenues increased by $15,007,000 or 6.7%, from $224,310,000 in the first nine months of 1999 to $239,317,000 in the first nine months 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 90.9% during the first nine months of 1999 to 90.2% during the first nine months of 2000. Average net patient service revenues per patient day at the Company's facilities increased from $151 in the first nine months of 1999 to $162 in the first nine months of 2000. The Company's average Medicare Part A per diem rate increased from $289 per Medicare patient day in the first nine months of 1999 to $313 per Medicare patient day in the first nine months of 2000, while the Company's average per diem Medicaid rate increased from $119 in the first nine months of 1999 to $126 in the first nine months 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 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 temporary Medicare rate increases implemented on April 1, 2000, the Company's average Medicare Part A payment rate increased from $289 per Medicare patient day during the first nine months of 1999 to $313 per Medicare patient day during the first nine months of 2000. The Company's quality mix of private, Medicare and insurance revenues was 51.0% for the nine months ended September 30, 1999 as compared to 50.9% during the same period of 2000.

Facility Operating Expenses. Facility operating expenses increased by $4,665,000, or 2.5%, from $187,066,000 in the first nine months of 1999 to $191,731,000 in the first nine months 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 19.5% from the first nine months of 1999 to the first nine months of 2000.

General and Administrative; Service Charges Paid to Former Affiliate. General and administrative expenses increased by $82,000, or 0.6%, from $13,585,000 in the first nine months of 1999 to $13,667,000 in the first nine months 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 nine months 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 nine months of 1999, such reimbursements totaled $880,000 compared to $845,000 during the first nine months of 2000.

Depreciation and Amortization. Depreciation and amortization increased from $7,451,000 in the first nine months of 1999 to $7,996,000 in the first nine months of 2000 primarily due to the depreciation of capital expenditures acquired in 2000.

Amortization of Prepaid Management Fees. Amortization of prepaid management fees was $900,000 during the first nine months of 1999 and the first nine months of 2000.

Facility Rent. Facility rent expense for the first nine months increased by $180,000 from $16,849,000 in 1999 to $17,029,000 in 2000.

Interest Expense, net. Interest expense, net, increased from $15,266,000 in the first nine months of 1999 to $17,330,000 in the first nine months 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 September 30, 2000, the Discount Notes had accreted to a balance of $125,550,000. Additionally, as of September 30, 1999 and 2000, the Company had $32,750,000 outstanding on its revolving credit facility. The Company has not made additional borrowings on its revolving credit facility since July 7, 1999.

Restructuring costs: In connection with the Company's therapy services restructuring plan, the Company incurred restructuring costs of $5,745,000 during the third quarter of 1999. The most significant components of this charge were the write-off of approximately $1.5 million of unamortized goodwill and a $2.5 million increase to the reserve for uncollectible receivables as a result of the Company's termination of non-affiliated contracts. (See Note D to the Company's condensed consolidated financial statements included elsewhere in this report.)

Loss on Termination of Capital Lease: In connection with the termination of a capital lease during the third quarter of 2000, the Company recorded a non-recurring charge of $8.9 million. The principal components of this charge included the write-off of capital leased assets in excess of the related capital lease obligation ($5.7 million) and the write-off of deferred financing costs ($1.8 million) related to the Company's bank credit facility. (See Note E to the Company's condensed consolidated financial statements included elsewhere in this report.)

Income Tax Benefit. As a result of losses incurred in the first nine months of 1999 and 2000, income tax benefits of $9,212,000 and $7,495,000, respectively, were recognized for those periods.

Net Loss. The net loss was $14,409,000 in the first nine months of 1999 as compared to $11,723,000 in the first nine months 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. The Company's 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 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 orginally provided 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, 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 earnings before interest, taxes, depreciation and amortization ("EBITDA").

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 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 "First Amendment") to the New Credit Facility which limited 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 First 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 First 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 September 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 September 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 First Amendment provides minimum EBITDA targets only through December 31, 2000. The First 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. The covenant allowing the Company to maintain compliance through the achievement of required minimum cumulative amounts of EBITDA expires as of December 31, 2000, and the Company must be able to achieve compliance with alternate financial ratios by March 31, 2001, or it will have to seek additional modifications to its existing financial covenants.

Until September 27, 2000, the Company, through a wholly-owned limited partnership, leased and operated four facilities in Ohio (the "Cleveland

Facilities") which it acquired in 1996 through capital leases. Each of the four leases contained an option to purchase the facility beginning July 1, 2001 and each lease was guaranteed by the Company. The guaranty provided that failure by the Company to have a specified minimum consolidated net worth at the end of any two consecutive quarters would be 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. (See Note D to the Company's condensed consolidated financial statements included elsewhere in this report.) 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, which would have resulted in an event of default under each of these leases with the Company potentially facing the loss of these operations. Such default could also have triggered cross-defaults under the Company's other lease and debt obligations. In December 1999, the Company paid $5 million to its landlord and obtained an option (the "New Option") to acquire the Cleveland Facilities. The Company borrowed $5 million from an affiliate of Investcorp S.A. to fund this payment. The New Option allowed the Company to exercise its right to purchase the Cleveland Facilities beginning as of the date of the New Option, required the Company to complete the acquisition prior to December 31, 2000 and provided a waiver of the net worth covenant through that date. The Company exercised the New Option on June 30, 2000 and assigned its purchase rights for the Cleveland Facilities to an investment entity organized by Investcorp.

On September 27, 2000, the Company terminated the Cleveland Facilities capital leases and assigned its purchase rights for these facilities to the investment entity for $5.0 million, which acquired the Cleveland Facilities on September 27, 2000. On that date, the Company entered into new operating leases for each of the Cleveland Facilities with combined annual rent expense of approximately $5.8 million. The Company also repaid the $5.0 million loan from an affiliate of Investcorp S.A. As a result of the capital lease termination, the Company recorded a non-recurring charge of $8.9 million. The principal components of this charge included the write-off of capital leased assets in excess of the related capital lease obligation ($5.7 million) and the write-off of deferred financing costs ($1.8 million) originally incurred in obtaining the Company's New Credit Facility. In order to complete the Cleveland Facility leasing transaction, the Company was required to obtain the release of certain collateral held by the bank group which provides the New Credit Facility. The Company obtained the release of the collateral as part of an amendment (the "Second Amendment") to the New Credit Facility, which also resulted in a permanent reduction of the Company's maximum borrowings under the credit facility from $250 million to $150 million and an increase in the Company's borrowing rate. As a result of the permanent reduction in funds available through the credit facility, the Company was required to write-off a proportionate amount of the deferred financing costs incurred when the credit facility was originally obtained.

The Company's operating activities during the first nine months of 1999 used net cash of $1,535,000 as compared to generating net cash of $22,200,000 in the first nine months of 2000, an improvement of $23,735,000. 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, accretion of interest on the Company's Discount Notes, and the loss on termination of a capital lease), and the receipt of a federal income tax refund of approximately $3,000,000.

Net cash used by investing activities decreased from $12,921,000 during the first nine months of 1999 to $7,282,000 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 First 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 $16,554,000 in 1999 to net cash used of $8,280,000 in 2000. This decrease was due to the fact that during the first nine months of 1999 the Company borrowed $20,000,000 under the New Credit Facility as compared to no new borrowings during the first nine months of 2000. The Company has not drawn on its revolving credit facility since July 7, 1999. During the third quarter of 2000, the Company also repaid a $5,000,000 note payable from an affiliate of Investcorp S.A.

In addition to the Discount Notes, as of September 30, 2000, the Company had two mortgage loans outstanding totaling $17,465,000 and had $32,750,000 in advances on its New Credit Facility. One mortgage loan had an outstanding principal balance of $15,958,000 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 $1,507,000 at September 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 not exceed $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 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.

Both the House of Representatives and the Senate have passed legislation that would, among other measures, provide temporary Medicare payment relief to skilled nursing facilities beyond the relief already provided by the Balanced Budget Refinement Act of 1999. However, the two houses of Congress have not yet reconciled their differing pieces of legislation, and the President has threatened to veto the reconciled legislation if it does not incorporate certain amendments that would not directly affect the Medicare payment relief proposed for skilled nursing facilities. The legislation involved also provides for an increase in the federal minimum wage rate. In the absence of an identifiable resolution to the differences which exist between the legislation passed by the two houses of Congress as well as the threatened Presidential veto, the Company cannot currently estimate the impact such incremental payment relief will have on the Company's consolidated financial position, results of its operations or cash flows. Since most employees of the Company earn in excess of the Federal minimum wage rate, the Company does not expect that the proposed increase in the Federal minimum wage rate will have a direct material impact on the Company's wage rates; however, the Company does expect that such an increase might provide additional stimulus to wage increases in the overall labor market.

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 nine months ended September 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 nine month periods ending September 30, 1999 or September 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.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Number	Description
10.19 (c)	SECOND AMENDMENT, dated as of September 25, 2000 to the Credit Agreement, dated as of August 11, 1998 among HARBORSIDE HEALTHCARE CORPORATION, a Delaware corporation , the other entities listed on the signature pages thereof, as joint and several borrowers thereunder , the banks and other financial institutions or entities parties thereto , CHASE SECURITIES INC., as arranger, MORGAN STANLEY SENIOR FUNDING, INC. and BT ALEX. BROWN INCORPORATED, as co-arrangers, MORGAN STANLEY SENIOR FUNDING, INC., as syndication agent, BANKERS TRUST COMPANY, as documentation agent, and THE CHASE MANHATTAN BANK, as administrative agent for the Lenders.
10.30	LEASE Dated September 26, 2000, by and between, HHC BEACHWOOD, INC. as LANDLORD AND HARBORSIDE OF CLEVELAND LIMITED PARTNERSHIP as TENANT.
10.31	LEASE dated September 26, 2000, by and between, HHC BROADVIEW, INC. as LANDLORD AND HARBORSIDE OF CLEVELAND LIMITED PARTNERSHIP as TENANT.
10.32	LEASE dated September 26, 2000, by and between, HHC WESTBAY, INC. as LANDLORD AND HARBORSIDE OF CLEVELAND LIMITED PARTNERSHIP as TENANT

(b) Reports on 8-K

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
President, and Chief Executive Officer

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

DATE: November 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 $12,713, deferred income taxes--current of $5,303, deferred income taxes--long-term of $15,684, restricted cash of $4,578, deferred financing and other non-current assets, net, of $11,782, note receivable $7,487 and other assets, net, of $2,200.
<F2>Includes the following long-term liabilities: deferred income of $2,042 and long-term debt of $175,521.
<F3>Includes the following equity accounts: additional paid-in capital of $193,547 treasury stock of ($183,746) and accumulated deficit of ($50,248).
</FN>
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