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, 2001

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____ No____ Not Applicable

Number of shares of common stock, par value $0.01 per share, outstanding as of August 10, 2001: 7,925,832.

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, 2000	June 30, 2001 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,724	$ 11,940
Accounts receivable, net of allowances for doubtful accounts of $2,272 and $3,097, respectively	48,659	44,138
Prepaid expenses and other	13,180	11,983
Total current assets	72,563	68,061
Restricted cash	4,805	5,349
Property and equipment, net	105,089	106,880
Deferred financing and other non-current assets, net	11,253	4,736
Other assets, net	1,900	1,300
Note receivable	7,487	7,487
Total assets	$ 203,097	$ 193,813
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	$ 5,250	$ 5,763
Accounts payable	10,883	12,687
Employee compensation and benefits	15,865	17,410
Other accrued liabilities	6,301	5,668
Accrued interest	470	354
Current portion of deferred income	514	521
Total current liabilities	39,283	42,403
Long-term portion of deferred income	1,910	1,747
Long-term debt (Note D)	173,866	112,318
Long-term accrued interest (Note D)	-	49,494
Total liabilities	215,059	205,962
13 ½% Exchangeable preferred stock, redeemable, $.01 par value, 500,000 shares authorized; 55,112 and 4 shares issued and outstanding, respectively (Note D)	55,112	-
13% Convertible exchangeable preferred stock, redeemable, $.01 par value with a liquidation value of $1,000 per share; 100,000 shares authorized; 0 and 15,277 shares issued and outstanding, respectively (Note D)	-	15,277
STOCKHOLDERS' DEFICIT		
Common stock, $.01 par value, 19,000,000 and 40,500,000 shares authorized, respectively, and 15,275,664 shares issued	153	153
Additional paid-in capital	191,750	188,985
Common stock in treasury, at cost, 7,349,832 shares	(183,746)	(183,746)
Accumulated deficit	(75,231)	(32,818)
Total stockholders' deficit	(67,074)	(27,426)
Total liabilities and stockholders' deficit	$ 203,097	$ 193,813

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

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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,	
	2000	2001	2000	2001
Total net revenues	$ 79,414	$ 86,127	$ 158,390	$ 168,213
Expenses:				
Facility operating	63,165	69,086	126,698	136,175
General and administrative	4,906	5,057	9,381	9,619
Service charges paid to former affiliate	275	276	550	551
Amortization of prepaid management fee	300	300	600	600
Depreciation and amortization	2,741	2,128	5,383	4,431
Facility rent	5,648	7,221	11,324	14,374
Financial restructuring costs (Note D)	-	6,874	-	9,045
Total expenses	77,035	90,942	153,936	174,795
Income (loss) from operations	2,379	(4,815)	4,454	(6,582)
Other:				
Interest expense, net	5,750	3,054	11,494	7,677
Other expense (income)	(46)	(135)	234	(89)
Loss before income taxes	(3,325)	(7,734)	(7,274)	(14,170)
Income tax (benefit)	(1,297)	-	(2,837)	-
Net loss	$ (2,028)	$ (7,734)	$ (4,437)	$(14,170)
Loss applicable to common shares:				
Net loss	$ (2,028)	$ (7,734)	$ (4,437)	$(14,170)
Preferred stock dividends	(1,685)	(905)	(3,315)	(2,765)
Loss applicable to common shares	$ (3,713)	$ (8,639)	$ (7,752)	$(16,935)
Loss per common share (Note C):				
Basic and diluted	$ (0.51)	$ (1.18)	$ (1.07)	$ (2.31)

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

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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, 2000	$ 153	$ 191,750	$ (183,746)	$ (75,231)	$ (67,074)
Preferred stock dividends	-	(2,765)	-	-	(2,765)
Reduction of liquidation preference and exchange of 13 ½% exchangeable preferred stock (Note D)	-	-	-	56,583	56,583
Net loss for the six months ended June 30, 2001	-	-	-	(14,170)	(14,170)
Stockholders' deficit, June 30, 2001	$ 153	$ 188,985	$ (183,746)	$ (32,818)	$ (27,426)

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

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HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES

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

	For the six months ended June 30, 2000	2001
Operating activities:		
Net loss	$ (4,437)	$ (14,170)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	4,166	3,697
Amortization of deferred financing and other non-current assets	1,217	734
Amortization of prepaid management fee	600	600
Amortization of deferred income	(339)	(258)
Accretion of senior subordinated discount notes	6,372	6,199
Amortization of long-term accrued interest	-	(623)
Amortization of loan costs and fees (included in rental and interest expense)	72	72
Non cash charges related to financial restructuring	-	4,896
Accretion of interest on capital lease obligation	1,788	-
	9,439	1,147
Changes in operating assets and liabilities:		
Decrease in accounts receivable	925	4,521
(Increase) decrease in prepaid expenses and other	(873)	1,197
(Increase) in deferred income taxes	(2,092)	-
Decrease in prepaid income taxes	2,608	-
Increase in accounts payable	4,191	1,804
Increase (decrease) in employee compensations and benefits	(958)	1,545
(Decrease) in accrued interest	(314)	(116)
(Decrease) in other accrued liabilities	(889)	(633)
Net cash provided by operating activities	12,037	9,465
Investing activities:		
Additions to property and equipment	(3,654)	(5,488)
Additions to deferred financing and other non-current assets	(1)	(196)
Transfers to restricted cash, net	(306)	(544)
Net cash (used) by investing activities	(3,961)	(6,228)
Financing activities:		
Issuance of preferred stock	-	15,000
Payment to holders of subordinated debt	-	(15,000)
Payment on revolving line of credit	-	(2,000)
Receipt in connection with lease	-	102
Payments of long-term debt	(107)	(117)
Principal payments of capital lease obligation	(2,322)	-
Dividends paid on preferred stock	(11)	(6)
Net cash (used) by financing activities	(2,440)	(2,021)
Net increase in cash and cash equivalents	5,636	1,216
Cash and cash equivalents, beginning of period	1,386	10,724
Cash and cash equivalents, end of period	$ 7,022	$ 11,940
Supplemental Disclosure:		
Interest paid	$ 3,572	$ 2,879
Income taxes paid	$ 111	$ 112
Accretion of preferred stock dividends	$ 3,304	$ 2,759

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

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A. General

Harborside Healthcare Corporation and its subsidiaries (the "Company" or "Harborside") provide high quality long-term care, subacute care and other specialty medical services 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). Within these regions, as of June 30, 2001, the Company operated 50 licensed long-term care facilities (18 owned, 31 leased and one managed) with a total of 6,124 licensed beds. 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, 2000 and with the additional information provided in the Company's filing on Form 8-K on May 11, 2001. 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, 2001, the results of its operations for the three-month and six-month periods ended June 30, 2000 and 2001 and its cash flows for the six-month periods ended June 30, 2000 and 2001. The results of operations for the three-month and six-month periods ended June 30, 2001 are not necessarily indicative of the results that 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 June 30, 2000 and 2001:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	2001	2000	2001
Numerator:				
Net loss	$ (2,028,000)	$ (7,734,000)	$ (4,437,000)	$(14,170,000)
Preferred stock dividends	(1,685,000)	(905,000)	(3,315,000)	(2,765,000)
Loss applicable to common shares	$ (3,713,000)	$ (8,639,000)	$ (7,752,000)	$(16,935,000)
Denominator (for basic and diluted loss per common share):				
Weighted average common shares outstanding	7,261,332	7,925,832	7,261,332	7,925,832
Adjustment for non-vested restricted shares	-	(585,333)	-	(588,316)
Adjusted weighted-average shares	7,261,332	7,340,499	7,261,332	7,337,516
Basic and diluted loss per common share	$ (0.51)	$ (1.18)	$ (1.07)	$ (2.31)

For the three-month and six-month periods ended June 30, 2000 and 2001, the weighted-average shares outstanding for the following potentially dilutive securities were excluded from the computation of diluted loss per common share because the affect would have been antidilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	2001	2000	2001
Options to purchase common stock	625,510	109,994	625,510	109,994
Non-vested shares of restricted stock	-	585,333	-	588,316
Conversion rights of convertible preferred stock	-	1,285,714	-	646,409
Warrants to purchase common stock	-	2,472,366	-	1,243,013
	625,510	4,453,407	625,510	2,587,732

D. Amendment of Credit Facility and Restructuring of Discount Notes and Preferred Stock

On March 28, 2001, the Company obtained an amendment (the "Third Amendment") to the Company's existing credit facility (the "New Credit Facility"). The Third Amendment resulted in a permanent reduction of the Company's maximum borrowings under the New Credit Facility from $150 million to $60 million, revised certain financial covenants, changed the maturity date of the New Credit Facility to March 31, 2004 and increased the Company's borrowing rate. The Third Amendment also requires the Company to repay, on an annual basis, the greater of $5,000,000 or 50% of the Company's excess cash flow (as defined).

In March 2001, the Company entered into an agreement (the "Restructuring Agreement") with Investcorp S.A. and the holders of more than a majority in interest of the Company's Discount Notes and Preferred Stock for purposes of implementing a restructuring of the Discount Notes and Preferred Stock. The Restructuring Agreement contemplated that the Company would offer to exchange for each $1,000 amount at maturity of outstanding Discount Notes a combination of the following: (1) 0.5899118 of a new 12% Senior Subordinated Discount Note due 2007 (the "New Notes") each having a principal amount at maturity equal to $1,000 and an original issue price of $685.67 (assuming that the New Notes were issued on May 4, 2001), (2) $88.2353 in cash and (3) common stock purchase warrants for approximately 10.9 shares of its Class A Common Stock. The Company would also offer to exchange common stock purchase warrants for approximately 10.7 shares of its Class A Common Stock for each $1,000 liquidation preference of Preferred Stock (based on the aggregate liquidation preference to be outstanding on May 1, 2001) plus any dividends accrued on such Preferred Stock after May 1, 2001. In conjunction with the restructuring proposal, the Company would solicit consents from holders of outstanding Discount Notes and

Preferred Stock to amendments to the Indenture governing the Discount Notes and to the Certificate of Designation governing the Preferred Stock that would eliminate or modify certain restrictive covenants and other provisions contained in the Indenture and the Certificate of Designation and would substantially eliminate the preferences of the Preferred Stock, including the reduction of the liquidation preference from $1,000 to $0.01 per share and the elimination of the right of holders to be paid dividends on shares of Preferred Stock. Also, the Company would issue to Investcorp S.A. (or one or more of its affiliates or designees) up to 15,000 shares of a new series of 13% convertible exchangeable preferred stock (the "New Preferred Stock") and 1,854,422 common stock purchase warrants for a total purchase price of up to $15,000,000.

On April 6, 2001 the Company initiated the exchange offer and consent solicitation contemplated by the Restructuring Agreement. On May 10, 2001, the Company completed the exchange offer and consent solicitation, thereby implementing each of the elements of the Restructuring Agreement. All of the outstanding Discount Notes and 99.96% of the Preferred Stock shares were tendered and exchanged in the exchange offer. As a result of the exchange, (1) the Company has an aggregate principal amount at maturity of $100,276,000 of New Notes outstanding and an aggregate liquidation preference of $15,000,000 of New Preferred Stock outstanding, (2) warrants were issued to holders of Discount Notes, to holders of Preferred Stock, and to Investcorp S.A. representing the right to purchase an aggregate of approximately 15%, 5% and 15%, respectively, of the total number of shares of all classes of the Company's common stock on a fully diluted basis (excluding shares issuable upon conversion of the New Preferred Stock to be issued to Investcorp, each share of which will initially be convertible into 150 shares of Class A Common Stock, and (3) the Company paid $15,000,000 in cash as partial consideration for the tendered Discount Notes.

The reduction in the liquidation preference of the Preferred Stock was completed on May 10, 2001, as contemplated by the Restructuring Agreement, the carrying amount of the Preferred Stock was reduced from $57,595,000 to $576 and the amount of the reduction, net of unamortized deferred financing costs related to the issuance of the Preferred Stock (approximately $1,011,000 at May 10, 2001), was directly transferred to the Company's Accumulated Deficit account. With the exchange of the New Notes for the Discount Notes (the "Note Exchange"), the carrying value of the accreted principal of the Discount Notes was reduced to $68,890,000, and the amount of the reduction, net of the aggregate cash payment of $15,000,000, was directly transferred to the Company's Long-term Accrued Interest account. Subsequent to their issuance, the carrying amount of the New Notes increases as the result of accretion and results in a corresponding decrease in the carrying amount of Long-term Accrued Interest. Interest expense on the New Notes is recognized such that a constant effective interest rate is applied to the aggregate carrying amount of the New Notes and Long-term Accrued Interest for all periods between the issuance date and the maturity date of the New Notes.

In connection with the Third Amendment to the New Credit Facility and the implementation of the Restructuring Agreement, the Company incurred a non-recurring charge of approximately $9,000,000. The charge resulted from the write-off of approximately $1,500,000 of unamortized deferred financing costs incurred when the New Credit Facility was obtained, the write-off of approximately $3,400,000 of unamortized deferred financing costs related to the issuance of the Discount Notes, and the recognition of various investment advisory, legal and other fees associated with these events approximating $4,100,000.

The New Notes were issued at a discount and interest on the New Notes accretes until August 1, 2004. Cash interest payments will be paid semi-annually in arrears beginning on February 1, 2005 based on the fully accreted value of the New Notes and a 12% cash interest payment rate. The New Notes mature on August 1, 2007. The New Preferred Stock is mandatorily redeemable on February 1, 2008. The holders of the New Preferred Stock are entitled to dividends quarterly in arrears beginning August 1, 2001 and payable in additional shares of New Preferred Stock. Warrants to purchase 4,326,641 shares of common stock at $0.01 per share were issued on May 10, 2001.

E. 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 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 June 30, 2000 and June 30, 2001; the condensed consolidating results of operations for the three-month and six-month periods ended June 30, 2000 and 2001; and the consolidating cash flows for the six-month periods ended June 30, 2000 and 2001 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.

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E. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
As of December 31, 2000
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 9,317	$ 1,407	$ -	$ 10,724
Accounts receivable, net of allowance for doubtful accounts of $2,272	-	33,111	15,548	-	48,659
Intercompany receivable	146,953	-	-	(146,953)	-
Prepaid expenses and other	3,128	8,403	1,649	-	13,180
Total current assets	150,081	50,831	18,604	(146,953)	72,563
Restricted cash	-	4,116	689	-	4,805
Investments in limited partnerships	15,584	-	4,044	(19,628)	-
Property and equipment, net	-	85,719	19,370	-	105,089
Deferred financing and other non-current assets, net	7,109	3,001	1,143	-	11,253
Other assets, net	1,900	-	-	-	1,900
Note receivable	-	7,487	-	-	7,487
Total assets	$174,674	$ 151,154	$ 43,850	$ (166,581)	$ 203,097
LIABILITIES					
Current liabilities:					
Current maturities of long-term debt	$ 5,000	$ 22	$ 228	$ -	$ 5,250
Accounts payable	-	8,331	2,552	-	10,883
Intercompany payable	-	119,147	11,543	(130,690)	-
Employee compensation and benefits	-	12,293	3,572	-	15,865
Other accrued liabilities	-	5,364	937	-	6,301
Accrued interest	470	-	-	-	470
Current portion of deferred income	-	-	-	514	514
Total current liabilities	5,470	145,157	18,832	(130,176)	39,283
Long-term portion of deferred income	-	582	1,842	(514)	1,910
Long-term debt	156,692	1,498	15,676	-	173,866
Total liabilities	162,162	147,237	36,350	(130,690)	215,059
13 ½% Exchangeable preferred stock, redeemable, $.01 par value with a liquidation value of $1,000 per share; 500,000 shares authorized; 55,112 issued and outstanding	55,112	-	-	-	55,112
STOCKHOLDERS' EQUITY (DEFICIT)					
Common stock, $.01 par value, 19,000,000 shares authorized, 15,275,664 shares issued	153	2,569	3,885	(6,454)	153
Additional paid-in capital	191,524	-	-	226	191,750
Common stock in treasury, at cost, 7,349,832 shares	(183,746)	-	-	-	(183,746)
Retained earnings (accumulated deficit)	(50,531)	(23,407)	(3,459)	2,166	(75,231)
Partners' equity	-	24,755	7,074	(31,829)	-
Total stockholders' equity (deficit)	(42,600)	3,917	7,500	(35,891)	(67,074)
Total liabilities and stockholders' equity (deficit)	$ 174,674	$151,154	$ 43,850	$ (166,581)	$ 203,097

E. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
As of June 30, 2001
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 10,651	$ 1,289	$ -	$ 11,940
Accounts receivable, net of allowance for doubtful accounts of $3,097	-	28,783	15,355	-	44,138
Intercompany receivable	146,823	-	-	(146,823)	-
Prepaid expenses and other	1,205	9,134	1,644	-	11,983
Total current assets	148,028	48,568	18,288	(146,823)	68,061
Restricted cash	-	4,637	712	-	5,349
Investment in limited partnership	15,584	-	4,044	(19,628)	-
Property and equipment, net	-	86,424	20,456	-	106,880
Deferred financing and other non-current assets, net	781	2,930	1,025	-	4,736
Other assets, net	1,300	-	-	-	1,300
Note receivable	-	7,487	-	-	7,487
Total assets	$165,693	$ 150,046	$ 44,525	$(166,451)	$ 193,813
LIABILITIES					
Current liabilities:					
Current maturities of long-term debt	$ 5,500	$ 22	$ 241	$ -	$ 5,763
Accounts payable	1	10,450	2,236	-	12,687
Intercompany payable	-	117,237	13,413	(130,650)	-
Employee compensation and benefits	-	13,810	3,600	-	17,410
Other accrued liabilities	-	4,714	954	-	5,668
Accrued interest	354	-	-	-	354
Current portion of deferred income	-	-	-	521	521
Total current liabilities	5,855	146,233	20,444	(130,129)	42,403
Long-term portion of deferred income	-	610	1,658	(521)	1,747
Long-term debt	95,274	1,490	15,554	-	112,318
Long-term accrued interest	49,494	-	-	-	49,494
Total liabilities	150,623	148,333	37,656	(130,650)	205,962
13% Convertible exchangeable preferred stock, redeemable, $.01 par value with a liquidation value of $1,000 per share; 100,000 shares authorized;15,277 shares issued and outstanding	15,277	-	-	-	15,277
STOCKHOLDERS' EQUITY (DEFICIT)					
Common stock, $.01 par value; 40,500,000 shares authorized; 15,275,664 shares issued	153	2,569	3,885	(6,454)	153
Additional paid-in capital	188,758	-	-	227	188,985
Common stock in treasury, at cost, 7,349,832 shares	(183,746)	-	-	-	(183,746)
Retained earnings (accumulated deficit)	(5,372)	(25,611)	(4,090)	2,255	(32,818)
Partners' equity	-	24,755	7,074	(31,829)	-
Total stockholders' equity (deficit)	(207)	1,713	6,869	(35,801)	(27,426)
Total liabilities and stockholders' equity (deficit)	$165,693	$150,046	$ 44,525	$(166,451)	$ 193,813

E. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statements 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 tax expense (benefit)	(678)	(906)	294	(7)	(1,297)
Net income (loss)	$ (1,063)	$ (1,481)	$ 463	$ 53	$ (2,028)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statements of Operations
For the three months ended June 30, 2001
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ -	$ 60,537	$ 27,028	$ (1,438)	$ 86,127
Expenses:					
Facility operating	-	48,365	22,159	(1,438)	69,086
General and administrative	13	5,044	-	-	5,057
Service charges paid to former affiliate	-	276	-	-	276
Amortization of prepaid management fee	300	-	-	-	300
Depreciation and amortization	118	1,493	517	-	2,128
Facility rent	-	5,022	2,199	-	7,221
Financial restructuring costs	6,474	400	-	-	6,874
Management fees paid to affiliates	-	(1,621)	1,621	-	-
Total expenses	6,905	58,979	26,496	(1,438)	90,942
Income (loss) from operations	(6,905)	1,558	532	-	(4,815)
Other:					
Interest expense, net	641	2,028	385	-	3,054
Other (income)	-	-	-	(135)	(135)
Income (loss) before income taxes	(7,546)	(470)	147	135	(7,734)
Income tax expense	-	-	-	-	-
Net income (loss)	$ (7,546)	$ (470)	$ 147	$ 135	$ (7,734)

E. Condensed Consolidating Financial Information (Continued)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statements 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 tax expense (benefit)	(1,353)	(1,678)	303	(109)	(2,837)
Net income (loss)	$ (2,118)	$ (2,670)	$ 476	$ (125)	$ (4,437)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statements of Operations
For the six months ended June 30, 2001
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ -	$ 118,402	$ 52,483	$ (2,672)	$ 168,213
Expenses:					
Facility operating	-	95,037	43,810	(2,672)	136,175
General and administrative	36	9,583	-	-	9,619
Service charges paid to former affiliate	-	551	-	-	551
Amortization of prepaid management fee	600	-	-	-	600
Depreciation and amortization	421	2,992	1,018	-	4,431
Facility rent	-	10,028	4,346	-	14,374
Financial restructuring costs	8,645	400	-	-	9,045
Management fees paid to affiliates	-	(3,132)	3,132	-	-
Total expenses	9,702	115,459	52,306	(2,672)	174,795
Income (loss) from operations	(9,702)	2,943	177	-	(6,582)
Other:					
Interest expense, net	1,722	5,147	808	-	7,677
Other (income)	-	-	-	(89)	(89)
Income (loss) before income taxes	(1,722)	(2,204)	(631)	89	(14,170)
Income tax expense	-	-	-	-	-
Net income (loss)	$ (11,424)	$ (2,204)	$ (631)	$ 89	$(14,170)

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 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

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
For the six months ended June 30, 2001
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Operating activities:					
Net cash provided by operating activities:	$ 1,904	$ 5,550	$ 2,011	$ -	$ 9,465
Investing activities:					
Additions to property and equipment	-	(3,491)	(1,997)	-	(5,488)
Additions to deferred financing and other non-current assets	-	(196)	-	-	(196)
Transfers to restricted cash, net	-	(521)	(23)	-	(544)
Net cash (used) by investing activities	-	(4,208)	(2,020)	-	(6,228)
Financing activities:					
Issuance of preferred stock	15,000	-	-	-	15,000
Payment to holders of subordinated debt	(15,000)	-	-	-	(15,000)
Payment on revolving line of credit	(2,000)	-	-	-	(2,000)
Receipt in connection with lease	102	-	-	-	102
Payments of long-term debt	-	(8)	(109)	-	(117)
Dividends paid on preferred stock	(6)	-	-	-	(6)
Net cash (used) by financing activities	(1,904)	(8)	(109)	-	(2,021)
Net increase (decrease) in cash and cash equivalents	-	1,334	(118)	-	1,216
Cash and cash equivalents, beginning of period	-	9,317	1,407	-	10,724
Cash and cash equivalents, end of period	$ -	$ 10,651	$ 1,289	$ -	$ 11,940
Supplemental Disclosure:					
Interest paid	$ 646	$ 1,930	$ 303	$ -	$ 2,879
Income taxes paid	$ 112	$ -	$ -	$ -	$ 112
Accretion of preferred stock dividends	$ 2,759	$ -	$ -	$ -	$ 2,759

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, 2001, 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.

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

	As of June 30,	
	2000	2001
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,	
	2000	2001	2000	2001
Patient days (2):				
Private and other	112,280	102,889	227,249	208,030
Medicare	60,427	76,638	123,120	143,510
Medicaid	309,382	297,135	618,648	597,022
Total	482,089	476,662	969,017	948,562
Total net revenues:				
Private and other	25.8%	22.3%	26.3%	23.0%
Medicare	25.7%	32.4%	25.2%	30.5%
Medicaid	48.5%	45.3%	48.5%	46.5%
Total	100.0%	100.0%	100.0%	100.0%
Average Occupancy Rate (3)	89.9%	89.1%	90.4%	89.1%
Quality Mix (4)	51.5%	54.7%	51.5%	53.5%

(1) Includes one managed facility with 106 licensed beds on June 30, 2000 and June 30, 2001.
(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 that 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 other revenues. 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, 2000 Compared to Three Months Ended June 30, 2001

Total Net Revenues. Total net revenues increased by $6,713,000 or 8.5%, from $79,414,000 in the second quarter of 2000 to $86,127,000 in the second quarter of 2001. The increase in total revenues, from 2000 to 2001, was primarily the result of higher average revenues per patient day. The average occupancy rate at all of the Company's facilities decreased from 89.9% during the second quarter of 2000 to 89.1% during the second quarter of 2001. Average net patient service revenues (including ancillary services) per patient day at the Company's facilities increased from $163 in the second quarter of 2000 to $178 in the second quarter of 2001. The Company's average Medicare Part A per diem rate increased from $321 per Medicare patient day in the second quarter of 2000 to $342 per Medicare patient day in the second quarter of 2001, while the Company's average per diem Medicaid rate increased from $125 in the second quarter of 2000 to $131 in the second quarter of 2001. In December 2000, the Medicare, Medicaid, and State Child Health Insurance Program Benefits Improvement and Protection Act of 2000 ("BIPA") was enacted. BIPA increased the prior nursing rate component of the Federal per diem rate, for each RUG category, by 16.66% effective April 1, 2001 through September 30, 2002. In addition, BIPA eliminated the 20% add-on for three of the fifteen rehabilitation services RUG categories and substituted a 6.7% add-on for all fifteen rehabilitation services RUG categories. The Balanced Budget Refinement Act of 1999 had temporarily increased the Federal per diem rates by 20% for fifteen acuity categories beginning on April 1, 2000. BIPA also extended the moratorium on the annual limitation on Part B therapy charges of $1,500 per beneficiary through calendar year 2002 and repealed a previous requirement to implement consolidated billing for Part B services. The current rate mechanism will stay in effect until the date on which the Centers for Medicare and Medicaid Services ("CMS"), previously known as 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, 2002. Primarily as the result of the Medicare rate increases implemented on April 1, 2001, the Company's average Medicare Part A payment rate increased from $321 per Medicare patient day during the second quarter of 2000 to $342 per Medicare patient day during the second quarter of 2001. The Company's quality mix of private, Medicare and insurance revenues was 51.5% for the three months ended June 30, 2000 as compared to 54.7% for the three months ended June 30, 2001.

Facility Operating Expenses. Facility operating expenses increased by $5,921,000 or 9.4%, from $63,165,000 in the second quarter of 2000 to $69,086,000 in the second quarter of 2001. The overall increase in operating expenses in 2001 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.

General and Administrative; Service Charges Paid to Former Affiliate. General and administrative expenses increased by $151,000 or 3.1%, from $4,906,000 in the second quarter of 2000 to $5,057,000 in the second quarter of 2001. The Company reimburses a former affiliate for data processing services provided to the Company. During the second quarter of 2000, such reimbursements totaled $275,000 compared to $276,000 during the second quarter of 2001.

Amortization of Prepaid Management Fees. Amortization of prepaid management fees was $300,000 during the second quarter of 2000 and the second quarter of 2001.

Depreciation and Amortization. Depreciation and amortization decreased from $2,741,000 in the second quarter of 2000 to $2,128,000 in the second quarter of 2001. Depreciation expense decreased primarily as the result of the refinancing of the Company's four Cleveland-area facilities. On September 27, 2000, the Company terminated its capital leases for these properties and entered into new operating leases for each of the Cleveland facilities. As a result of this transaction, the Company's annual depreciation and interest expense decreased by approximately $1,400,000 and $4,100,000, respectively, while the Company's annual rent expense increased by approximately $5,900,000. The Company's amortization expense decreased in the second quarter of 2001 primarily as a result of the write-off of deferred financing costs in September 2000 and the first half of 2001. The write-off of deferred financing costs in the first half of 2001 were made in connection with amendments to the Company's bank credit facility and the financial restructuring completed in the second quarter of 2001.

Facility Rent. Facility rent expense increased by $1,573,000 from $5,648,000 in the second quarter of 2000 to $7,221,000 in the second quarter of 2001 as a result of the refinancing of the Company's Cleveland-area facilities.

Financial Restructuring Costs. In connection with the Financial Restructuring completed in the second quarter of 2001, the Company recorded a non-recurring charge of approximately $6.9 million. The charge resulted from the write-off of unamortized deferred financing costs, related to the issuance of the Discount Notes, and the recognition of various investment advisory, legal and other fees associated with this event.

Interest Expense, net. Interest expense, net, decreased from $5,750,000 in the second quarter of 2000 to $3,054,000 in the second quarter of 2001. This decrease is the result of the refinancing of the Cleveland-area facilities in September 2000 and the restructuring of the Company's Discount Notes completed in May 2001. The termination of the Cleveland-area capital leases reduced the Company's interest expense by approximately $4,100,000 on an annual basis. The restructuring of the Discount Notes reduced both the carrying amount of the debt and its effective interest rate.

Income Tax Benefit. As a result of losses incurred in the second quarter of 2000, an income tax benefit of $1,297,000 was recognized for that period. As a result of the uncertainty of future realization of deferred tax assets, for the quarter ended June 30, 2001, the Company has recorded a valuation allowance equal to the income tax benefit that would otherwise have been recorded by the Company.

Net Loss. The net loss was $2,028,000 in the second quarter of 2000 as compared to $7,734,000 in the second quarter of 2001.

Six Months Ended June 30, 2000 Compared to Six Months Ended June 30, 2001

Total Net Revenues. Total net revenues increased by $9,823,000 or 6.2%, from $158,390,000 in the first half of 2000 to $168,213,000 in the first half of 2001. The increase in total revenues, from 2000 to 2001, was primarily the result of higher average revenues per patient day. The average occupancy rate at all of the Company's facilities decreased from 90.4% during the first half of 2000 to 89.1% during the first half of 2001. Average net patient service revenues (including ancillary services) per patient day at the Company's facilities increased from $161 in the first half of 2000 to $175 in the first half of 2001. The Company's average Medicare Part A per diem rate increased from $309 per Medicare patient day in the first half of 2000 to $334 per Medicare patient day in the first half of 2001, while the Company's average per diem Medicaid rate increased from $124 in the first half of 2000 to $131 in the first half of 2001. In December 2000, the Medicare, Medicaid, and State Child Health Insurance Program Benefits Improvement and Protection Act of 2000 ("BIPA") was enacted. BIPA increased the prior nursing rate component of the Federal per diem rate, for each RUG category, by 16.66% effective April 1, 2001 through September 30, 2002. In addition, BIPA eliminated the 20% add-on for three of the fifteen rehabilitation services RUG categories and substituted a 6.7% add-on for all fifteen rehabilitation services RUG categories. The Balanced Budget Refinement Act of 1999 had temporarily increased the Federal per diem rates by 20% for fifteen acuity categories beginning on April 1, 2000. BIPA also extended the moratorium on the annual limitation on Part B therapy charges of $1,500 per beneficiary through calendar year 2002 and repealed a previous requirement to implement consolidated billing for Part B services. The current rate mechanism will stay in effect until the date on which the Centers for Medicare and Medicaid Services, previously known as 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, 2002. Primarily as the result of the Medicare rate increases implemented on April 1, 2001, the Company's average Medicare Part A payment rate increased from $309 per Medicare patient day during the first half of 2000 to $334 per Medicare patient day during the first half of 2001. The Company's quality mix of private, Medicare and insurance revenues was 51.5% for the six months ended June 30, 2000 as compared to 53.5% for the six months ended June 30, 2001.

Facility Operating Expenses. Facility operating expenses increased by $9,477,000 or 7.5%, from $126,698,000 in the first half of 2000 to $136,175,000 in the first half of 2001. The overall increase in operating expenses in 2001 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.

General and Administrative; Service Charges Paid to Former Affiliate. General and administrative expenses increased by $238,000 or 2.5%, from $9,381,000 in the first half of 2000 to $9,619,000 in the first half of 2001. The Company reimburses a former affiliate for data processing services provided to the Company. During the first half of 2000, such reimbursements totaled $550,000 compared to $551,000 during the first half of 2001.

Amortization of Prepaid Management Fees. Amortization of prepaid management fees was $600,000 during the first half of 2000 and the first half of 2001.

Depreciation and Amortization. Depreciation and amortization decreased from $5,383,000 in the first half of 2000 to $4,431,000 in the first half of 2001. Depreciation expense decreased primarily as the result of the refinancing of the Company's four Cleveland-area facilities. On September 27, 2000, the Company terminated its capital leases for these properties and entered into new operating leases for each of the Cleveland facilities. As a result of this transaction, the Company's annual depreciation and interest expense decreased by approximately $1,400,000 and $4,100,000, respectively, while the Company's annual rent expense increased by approximately $5,900,000. The Company's amortization expense decreased in the first half of 2001 primarily as a result of the write-off of deferred financing costs in September 2000 and the first half of 2001. The write-off of deferred financing costs in the first half of 2001 were made in connection with amendments to the Company's bank credit facility and the financial restructuring completed in the second quarter of 2001.

Facility Rent. Facility rent expense increased by $3,050,000, from $11,324,000 in the first half of 2000 to $14,374,000 in the first half of 2001 as a result of the refinancing of the Company's Cleveland-area facilities.

Financial Restructuring Costs. In connection with the amendment to the Company's bank credit facility and the Financial Restructuring completed in the first half of 2001, the Company recorded non-recurring charges totaling approximately $9.1 million. The charges resulted from the write-off of unamortized deferred financing costs, related to obtaining the Company's bank credit facility and issuing its Discount Notes, and the recognition of various investment advisory, legal and other fees associated with completing the amendment to the bank credit facility and the Financial Restructuring.

Interest Expense, net. Interest expense, net, decreased from $11,494,000 in the first half of 2000 to $7,677,000 in the first half of 2001. This decrease is the result of the refinancing of the Cleveland-area facilities in September 2000 and the restructuring of the Company's Discount Notes completed in May 2001.The termination of the Cleveland-area capital leases reduced the Company's interest expense by approximately $4,100,000 on an annual basis. The restructuring of the Discount Notes reduced both the carrying amount of the debt and its effective interest rate.

Income Tax Benefit. As a result of losses incurred in the first half of 2000, an income tax benefit of $2,837,000 was recognized for that period. As a result of the uncertainty of future realization of deferred tax assets, for the six months ended June 30, 2001, the Company has recorded a valuation allowance equal to the income tax benefit that would otherwise have been recorded by the Company.

Net Loss. The net loss was $4,437,000 in the first half of 2000 as compared to $14,170,000 in the first half of 2001.

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 existing leased facilities are leased from either the owner of the facilities, from a real estate investment trust that 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 that 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 was to accrete 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 were payable, at the option of the Company, in additional shares of the Preferred Stock until August 1, 2003. After that date dividends were required to be paid in cash. 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 originally provided up to $75 million on a revolving credit basis plus an additional $175 million initially funded on a revolving basis that would convert to a term loan on an annual basis on each anniversary of the closing. During the first four years of the facility, any or all of the full $250 million of availability under the facility could be used for synthetic lease financings. Proceeds of loans under the facility can 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 required minimum amounts of EBITDA, measured quarterly, but calculated on a rolling twelve-month basis, through December 31, 2000. As long as the Company met or exceeded the required minimum cumulative amounts of EBITDA, the Company could access the New Credit Facility for general corporate purposes, subject to the reduced amount of availability.

Until September 27, 2000, the Company, through a wholly-owned limited partnership, leased and operated four facilities in Ohio (the “Cleveland Facilities”) that 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. 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 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 S.A. for $5.0 million that 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 $5.9 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 that 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 that also resulted in a permanent reduction of the Company’s maximum borrowings under the New 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 New Credit Facility, the Company was required to write off a proportionate amount of the deferred financing costs incurred when the New Credit Facility was originally obtained.

On March 28, 2001, the Company obtained an additional amendment (the “Third Amendment”) to the New Credit Facility. The Third Amendment resulted in a permanent reduction of the Company’s maximum borrowings under the New Credit Facility from $150 million to $60 million, revised certain financial covenants, changed the maturity date of the New Credit Facility to March 31, 2004 and increased the Company’s borrowing rate. The Third Amendment also requires the Company to repay, on an annual basis, the greater of $5.0 million or 50% of the Company’s excess cash flow (as defined).

In March 2001, the Company entered into an agreement (the "Restructuring Agreement") with Investcorp S.A. and the holders of more than a majority in interest of the Company's Discount Notes and Preferred Stock for purposes of implementing a restructuring of the Discount Notes and Preferred Stock. The Restructuring Agreement contemplated that the Company would offer to exchange for each $1,000 amount at maturity of outstanding Discount Notes a combination of the following: (1) 0.5899118 of a new 12% Senior Subordinated Discount Note due 2007 (the “New Notes”) each having a principal amount at maturity equal to $1,000 and an original issue price of $685.67 (assuming that the New Notes were issued on May 4, 2001), (2) $88.2353 in cash and (3) common stock purchase warrants for approximately 10.9 shares of its Class A Common Stock. The Company would also offer to exchange common stock purchase warrants for approximately 10.7 shares of its Class A Common Stock for each $1,000 liquidation preference of Preferred Stock (based on the aggregate liquidation preference to be outstanding on May 1, 2001) plus any dividends accrued on such Preferred Stock after May 1, 2001. In conjunction with the restructuring proposal, the Company would solicit consents from holders of outstanding Discount Notes and Preferred Stock to amendments to the Indenture governing the Discount Notes and to the Certificate of Designation governing the Preferred Stock that would eliminate or modify certain restrictive covenants and other provisions contained in the Indenture and the Certificate of Designation and would substantially eliminate the preferences of the Preferred Stock, including the reduction of the liquidation preference from $1,000 to $0.01 per share and the elimination of the right of holders to be paid dividends on shares of Preferred Stock. Also, the Company would issue to Investcorp S.A. (or one or more of its affiliates or designees) up to 15,000 shares of a new series of 13% convertible exchangeable preferred stock (the "New Preferred Stock") and 1,854,422 common stock purchase warrants for a total purchase price of up to $15,000,000.

On April 6, 2001 the Company initiated the exchange offer and consent solicitation contemplated by the Restructuring Agreement. On May 10, 2001, the Company completed the exchange offer and consent solicitation, thereby implementing each of the elements of the Restructuring Agreement. All of the outstanding Discount Notes and 99.96% of the shares of Preferred Stock were tendered and exchanged in the exchange offer. As a result of the exchange, (1) the Company has an aggregate principal amount at maturity of $100,276,000 of New Notes outstanding and an aggregate liquidation preference of $15,000,000 of New Preferred Stock outstanding, (2) warrants were issued to holders of Discount Notes, to holders of Preferred Stock, and to Investcorp S.A. representing the right to purchase an aggregate of approximately 15%, 5% and 15%, respectively, of the total number of shares of all classes of the Company's common stock on a fully diluted basis (excluding shares issuable upon conversion of the New Preferred Stock to be issued to Investcorp, each share of which will initially be convertible into 150 shares of Class A Common Stock, and (3) the Company paid $15,000,000 in cash as partial consideration for the tendered Discount Notes.

The reduction in the liquidation preference of the Preferred Stock was completed on May 10, 2001, as contemplated by the Restructuring Agreement, the carrying amount of the Preferred Stock was reduced from $57,595,000 to $576 and the amount of the reduction, net of unamortized deferred financing costs related to the issuance of the Preferred Stock (approximately $1,011,000 at May 10, 2001), was directly transferred to the Company’s Accumulated Deficit account. With the exchange of the New Notes for the Discount Notes (the “Note Exchange”), the carrying value of the accreted principal of the Discount Notes was reduced to $68,890,000, and the amount of the reduction, net of the aggregate cash payment of $15,000,000, was directly transferred to the Company’s Long-term Accrued Interest account. Subsequent to their issuance, the carrying amount of the New Notes increases as the result of accretion and results in a corresponding decrease in the carrying amount of Long-term Accrued Interest. Interest expense on the New Notes is recognized such that a constant effective interest rate is applied to the aggregate carrying amount of the New Notes and Long-term Accrued Interest for all periods between the issuance date and the maturity date of the New Notes.

In connection with the Third Amendment to the New Credit Facility and the implementation of the Restructuring Agreement, the Company incurred a non-recurring charge of approximately $9,000,000. The charge resulted from the write-off of approximately $1,500,000 of unamortized deferred financing costs incurred when the New Credit Facility was obtained, the write-off of approximately $3,400,000 of unamortized deferred financing costs related to the issuance of the Discount Notes, and the recognition of various investment advisory, legal and other fees associated with these events approximating $4,100,000.

The New Notes were issued at a discount and interest on the New Notes accretes until August 1, 2004. Cash interest payments will be paid semi-annually in arrears beginning on February 1, 2005 based on the fully accreted value of the New Notes and a 12% cash interest payment rate. The New Notes mature on August 1, 2007. The New Preferred Stock is mandatorily redeemable on February 1, 2008. The holders of the New Preferred Stock are entitled to dividends quarterly in arrears beginning August 1, 2001 and payable in additional shares of New Preferred Stock. Warrants to purchase 4,326,641 shares of common stock at $0.01 per share were issued on May 10, 2001.

As of June 30, 2001, total borrowings under the New Credit Facility were $55,061,000 and consisted of $30,750,000 of revolver loans, $13,700,000 of synthetic lease obligations and $10,611,000 of undrawn letters of credit. As of June 30, 2001, the Company had approximately $4,939,000 of funding available under the New Credit Facility (as amended by the Third Amendment) and was not in default of the financial covenants of the New Credit Facility as amended by the Third Amendment.

The Company's operating activities during the first half of 2000 provided net cash of $12,037,000 as compared to providing net cash of $9,465,000 during the first half 2001. Cash flows from operations in 2001 decreased as the result of non-recurring cash charges incurred in connection with completing the Third Amendment and the Financial Restructuring.

Net cash used by investing activities was $3,961,000 during the first half of 2000 as compared to $6,228,000 used during the first half of 2001. The primary use of cash for investing purposes during 2000 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. The primary use of cash for investing purposes during 2001 was to fund additions of property and equipment associated with the maintenance of the Company's nursing facilities. The higher level of property additions in the second quarter of 2001 reflects significant renovations that occurred at several of the Company’s facilities during that period. These renovations were designed to maintain and enhance the facilities’ functionality and marketing appeal.

Net cash used by financing activities was $2,440,000 during the first half of 2000 as compared to $2,021,000 during the first half of 2001. Substantially all of the cash used in the first half of 2000 related to principal payments associated with the Cleveland-area facilities capital leases. The refinancing of these leases in September 2000 eliminated the principal payments associated with the capital leases. These payments amounted to approximately $2,300,000 in the first half of 2000. The financing activities during the first half of 2001 consisted of the issuance of $15.0 million of New Preferred Stock, a payment of $15.0 million to the holders of the Discount Notes and a repayment of $2.0 million of borrowings outstanding under the New Credit Facility. As of June 30, 2001, the Company had repaid $2.0 million of the $5.0 million it is required to repay against the New Credit Facility by December 31, 2001, in accordance with the terms of the Third Amendment.

In addition to the Discount Notes, as of June 30, 2001, the Company had two mortgage loans outstanding totaling $17,307,000 and $30,750,000 in advances on its New Credit Facility. One mortgage loan had an outstanding principal balance of $15,795,000 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 $1,512,000 at June 30, 2001, of which $1,338,000 is due in 2010.

Harborside expects that its capital expenditures for 2001, 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 financing to finance any significant acquisitions in the future.

The Company’s current general and professional liability insurance policy expires on September 1, 2001. The Company is currently in discussions with its insurance advisors to review various replacement options. At this time, the Company estimates that its annual cost for professional and general liability insurance will increase from $2,500,000 to $6,000,000 effective September 1, 2001. There can be no assurance, however, that the coverage limits of the Company’s insurance policy will be adequate or that insurance will continue to be available to the Company on commercially reasonable terms in the future.

The Health Insurance Portability and Accountability Act of 1997 (“HIPAA”) became effective on January 1, 1997 and mandated the adoption of regulations designed to (a) standardize transaction formats and billing codes for documenting medical services and processing medical claims; and (b) protect the privacy and security of individually identifiable health information. Final HIPAA regulations were published during the fourth quarter of 2000. The Company is currently working in conjunction with its software vendors to evaluate the impact of HIPAA regulations on the Company’s systems and operating procedures. The Company has not yet completed its analysis or its estimate of the expected costs of HIPAA compliance. There can be no assurances that compliance with HIPAA regulations will not have an adverse effect on the Company’s results of operations, cash flows or its financial position.

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

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

8. 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 systems in the states in which the Company operates that facilitate such competition.

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

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

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

12. 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. An increase of 1% in the applicable rate would increase the Company's annual interest cost by approximately $328,000.

The Company did not experience significant changes in interest rates during the six months ended June 30, 2001. 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, 2000 or June 30, 2001.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings
None.

Item 2. Changes in Securities

(a) On May 10, 2001, the Indenture (the "Old Indenture") for the Company's 11% Senior Subordinated Discount Notes due 2008 and the Certificate of Designation (the "Old Certificate of Designation") for the Company's 13-1/2% Exchangeable Preferred Stock were amended. The general effect of such modification upon the rights of holders of these securities was to eliminate and modify certain restrictive covenants and other provisions contained in the Old Indenture and the Old Certificate of Designation and to substantially eliminate the preferences of the 13-1/2% Exchangeable Preferred Stock, including the reduction of the liquidation preference from $1,000 to $0.01 per share and the elimination of the right of holders to be paid future dividends on shares of 13-1/2% Exchangeable Preferred Stock.

(b) None.

(c) During the fiscal quarter ended June 30, 2001, the Company issued and sold unregistered securities as set forth below:

(1) On May 10, 2001, the Company completed an exchange offer for its 11% Senior Subordinated Discount Notes due 2008 (the "Old Notes") and its 13-1/2% Exchangeable Preferred Stock (the "Old Preferred Stock"). The Company issued $100,276,000 aggregate principal amount at maturity of its 12% Senior Subordinated Discount Notes due 2007 (the "New Notes") in exchange for $170,000,000 aggregate principal amount at maturity of the Old Notes. In addition, the Company issued an aggregate of 2,472,219 warrants (the "Warrants"), each exercisable for one share of the Company's Class A Common Stock, par value $0.01 per share, to holders of the Old Notes and Old Preferred Stock. The Warrants have an exercise price of $0.01 per share and are exercisable at the earliest to occur of: (i) a Change of Control (as defined in the warrant agreement relating to the warrants; (ii) an initial public offering of the Company's common stock; (iii) the full redemption of all New Notes at the option of the Company; and (iv) August 1, 2009. The Company issued the New Notes and the Warrants in transactions exempt from registration under the Securities Act of 1933 in reliance upon Section 3(a)(9) thereof.

(2) On May 10, 2001, the Company issued to Investcorp S.A. (or one or more of its affiliates or designees) 15,000 shares of its 13% Convertible Exchangeable Preferred Stock and 1,854,422 Warrants for a total purchase price of $15,000,000. Each share of 13% Convertible Exchangeable Preferred Stock is convertible into 150 shares of the Company's Class A Common stock at any time at the option of the holder. The Company issued these securities in an offshore transaction occurring outside of the United States in compliance with Regulation S promulgated under the Securities Act of 1933.

No underwriters were engaged in connection with any of the foregoing transactions.

(d) Not applicable.

Item 3. Defaults upon Senior Securities
None.

Item 4. Submission of Matters to a Vote of Security Holders
During the fiscal quarter ended June 30, 2001, resolutions were adopted by the stockholders of the Company by written consent effective as April 4, 2001 to approve an amendment to the Company's certificate of incorporation. The amendment was to (1) increase the authorized number of shares of all classes of the Company's capital stock from 19,500,000 shares to 40,500,000 shares, (2) increase the authorized number of shares of the Company's Class A Common Stock, par value $0.01 per share, from 1,200,000 shares to 11,700,000 shares and (3) increase the authorized number of shares of the Company's Common Stock, par value $0.01 per share, from 9,500,000 shares to 20,000,000 shares. Holders of shares representing 6,600,000 votes of the 7,261,332 total votes outstanding consented to the adoption of such resolutions.

Item 5. Other Information
None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	**Description**
3.1(e)	Amended Certificate of Designation of the Registrant for the Redeemable Preferred Stock (formerly known as 13-1/2% Exchangeable Preferred Stock)
3.1(f)	Certificate of Designation of the Registrant for the 13% Convertible Exchangeable Preferred Stock
4.9	Second Supplemental Indenture, dated as of May 10, 2001, between the Registrant, the Guarantors as defined therein and United States Trust Company of New York, as trustee, relating to the 11% Senior Subordinated Discount Notes due 2008
4.10	Indenture, dated as of May 10, 2001, among the Registrant, the Guarantors as defined therein and United States Trust Company of New York, as trustee, relating to the 12% Senior Subordinated Discount Notes due 2007
10.33	Series A Warrant Agreement, dated as of May 10, 2001, between the Registrant and United States Trust Company of

New York, as warrant agent

10.34 Series B Warrant Agreement, dated as of May 10, 2001, between the Registrant and United States Trust Company of New York, as warrant agent

10.35 Warrant Registration Rights Agreement, dated as of May 10, 2001, by the Registrant for the benefit of holders of Series A Warrants and Series B Warrants

10.36 Preferred Stock Registration Rights Agreement, dated as of May 10, 2001, between the Registrant and the investors listed on the signature pages thereto

(b) Reports on 8-K
The Company filed an 8-K on May 11, 2001 regarding the completion of its exchange offer for all of its outstanding 11% Senior Subordinated Discount Notes due 2008 and 13-1/2% Exchangeable Preferred Stock.

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:
Stephen L. Guillard
President and Chief Executive Officer

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

DATE: August 14, 2001