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, 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 November 10, 2001: 7,925,832.

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES

Table of Contents

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	September 30, 2001 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,724	$ 9,865
Accounts receivable, net of allowances for doubtful accounts of $2,272 and $3,694, respectively	48,659	44,918
Prepaid expenses and other	13,180	12,688
Total current assets	72,563	67,471
Restricted cash	4,805	5,656
Property and equipment, net	105,089	107,681
Deferred financing and other non-current assets, net	11,253	4,494
Other assets, net	1,900	1,000
Note receivable	7,487	7,487
Total assets	$ 203,097	$ 193,789
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	$ 5,250	$ 3,769
Accounts payable	10,883	12,814
Employee compensation and benefits	15,865	18,046
Other accrued liabilities	6,301	6,533
Accrued interest	470	442
Current portion of deferred income	514	521
Total current liabilities	39,283	42,125
Long-term portion of deferred income	1,910	1,617
Long-term debt (Note D)	173,866	114,327
Long-term accrued interest (Note D)	-	48,324
Total liabilities	215,059	206,393
13 ½ % Exchangeable preferred stock, redeemable, $.01 par value, 250,000 shares authorized; 55,112 and 23 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 15,774 shares issued and outstanding, respectively (Note D)	-	15,774
STOCKHOLDERS' DEFICIT		
Common stock, $.01 par value, 19,000,000 and 40,000,000 shares authorized, respectively, and 15,275,664 shares issued	153	153
Additional paid-in capital	191,750	188,488
Common stock in treasury, at cost, 7,349,832 shares	(183,746)	(183,746)
Accumulated deficit	(75,231)	(33,273)
Total stockholders' deficit	(67,074)	(28,378)
Total liabilities and stockholders' deficit	$ 203,097	$ 193,789

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,	
	2000	2001	2000	2001
Total net revenues	$ 80,927	$ 88,210	$ 239,317	$ 256,423
Expenses:				
Facility operating	65,033	71,209	191,731	207,384
General and administrative	4,286	4,805	13,667	14,424
Service charges paid to former affiliate	295	250	845	801
Amortization of prepaid management fee	300	300	900	900
Depreciation and amortization	2,613	2,117	7,996	6,548
Facility rent	5,705	7,186	17,029	21,560
Loss on termination of capital lease	8,914	-	8,914	-
Financial restructuring costs (Note D)	-	-	-	9,045
Facility reorganization costs (Note E)	-	750	-	750
Total expenses	87,146	86,617	241,082	261,412
Income (loss) from operations	(6,219)	1,593	(1,765)	(4,989)
Other:				
Interest expense, net	5,836	2,097	17,330	9,774
Other expense (income)	(111)	(49)	123	(138)
Loss before income taxes	(11,944)	(455)	(19,218)	(14,625)
Income tax (benefit)	(4,658)	-	(7,495)	-
Net loss	$ (7,286)	$ (455)	$ (11,723)	$(14,625)
Loss applicable to common shares:				
Net loss	$ (7,286)	$ (455)	$ (11,723)	$(14,625)
Preferred stock dividends	(1,741)	(497)	(5,056)	(3,262)
Loss applicable to common shares	$ (9,027)	$ (952)	$ (16,779)	$(17,887)
Loss per common share (Note C):				
Basic and diluted	$ (1.24)	$ (0.13)	$ (2.31)	$ (2.44)

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

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT 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	-	(3,262)	-	-	(3,262)
Reduction of liquidation preference and exchange of 13 ½ % exchangeable preferred stock (Note D)	-	-	-	56,583	56,583
Net loss for the nine months ended September 30, 2001	-	-	-	(14,625)	(14,625)
Stockholders' deficit, September 30, 2001	$ 153	$ 188,488	$ (183,746)	$ (33,273)	$ (28,378)

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,	
	2000	2001
Operating activities:		
Net loss	$ (11,723)	$ (14,625)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	6,168	5,603
Amortization of deferred financing and other non-current assets	1,828	945
Amortization of prepaid management fee	900	900
Amortization of deferred income	(508)	(388)
Accretion of senior subordinated discount notes	9,703	8,279
Amortization of long-term accrued interest	-	(1,793)
Amortization of loan costs and fees (included in rental and interest expense)	103	107
Loss on termination of capital lease	7,542	-
Non cash charges related to financial restructuring	-	4,896
Accretion of interest on capital lease obligation	2,753	-
	16,766	3,924
Changes in operating assets and liabilities:		
Decrease in accounts receivable	1,903	3,741
Decrease in prepaid expenses and other	6,810	492
(Increase) in deferred income taxes	(3,832)	-
(Increase) in prepaid income taxes	(295)	-
Increase in accounts payable	988	1,931
Increase (decrease) in employee compensations and benefits	(613)	2,181
Increase (decrease) in accrued interest	2	(28)
Increase in other accrued liabilities	471	232
Net cash provided by operating activities	22,200	12,473
Investing activities:		
Additions to property and equipment	(5,123)	(8,195)
Additions to deferred financing and other non-current assets	(1)	(200)
Transfers to restricted cash, net	(2,158)	(851)
Net cash (used) by investing activities	(7,282)	(9,246)
Financing activities:		
Issuance of preferred stock	-	15,000
Payment to holders of subordinated debt	-	(15,000)
Payment on revolving line of credit	-	(4,000)
Receipt in connection with lease	-	102
Repayment of note payable to affiliate	(5,000)	-
Payments of long-term debt	(183)	(182)
Principal payments of capital lease obligation	(3,084)	-
Dividends paid on preferred stock	(13)	(6)
Net cash (used) by financing activities	(8,280)	(4,086)
Net increase (decrease) in cash and cash equivalents	6,638	(859)
Cash and cash equivalents, beginning of period	1,386	10,724
Cash and cash equivalents, end of period	$ 8,024	$ 9,865
Supplemental Disclosure:		
Interest paid	$ 5,060	$ 4,179
Income taxes paid	$ 130	$ 112
Accretion of preferred stock dividends	$ 5,043	$ 3,256

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

A. General

Harborside Healthcare Corporation, through its subsidiaries (the "Company" or "Harborside"), provides 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 September 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 September 30, 2001, the results of its operations for the three-month and nine-month periods ended September 30, 2000 and 2001 and its cash flows for the nine-month periods ended September 30, 2000 and 2001. The results of operations for the three-month and nine-month periods ended September 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 September 30, 2000 and 2001:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	2001	2000	2001
Numerator:				
Net loss	$ (7,286,000)	$ (455,000)	$ (11,723,000)	$(14,625,000)
Preferred stock dividends	(1,741,000)	(497,000)	(5,056,000)	(3,262,000)
Loss applicable to common shares	$ (9,027,000)	$ (952,000)	$ (16,779,000)	$(17,887,000)
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	-	(577,326)	-	(584,613)
Adjusted weighted-average shares	7,261,332	7,348,506	7,261,332	7,341,219
Basic and diluted loss per common share	$ (1.24)	$ (0.13)	$ (2.31)	$ (2.44)

For the three-month and nine-month periods ended September 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 effect would have been antidilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	2001	2000	2001
Options to purchase common stock	611,926	109,994	620,949	109,994
Non-vested shares of restricted stock	14,446	577,326	4,850	584,613
Conversion rights of convertible preferred stock	-	2,298,634	-	1,203,203
Warrants to purchase common stock	-	4,326,641	-	2,282,184
	626,372	7,312,595	625,799	4,179,994

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 (as of May 10, 2001) 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, 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 a total of 4,326,641 shares of common stock at $0.01 per share were issued on May 10, 2001.

E. Facility Reorganization Costs

During the third quarter of 2001, the Company incurred a non-recurring charge of $750,000 in connection with its decision to revise the marketing approach for facilities operated through subsidiaries in Florida. The Company determined that a local community-based marketing approach would better serve the needs of these facilities. The marketing approach stresses ties to the local community and required renaming these facilities in order to emphasize this approach. In connection with this effort, the Company also restructured certain of its subsidiaries effective October 1, 2001. In order to implement this strategy, the Company incurred non-recurring marketing, legal and other expenses.

F. Condensed Consolidating Financial Information

Certain of the Company's subsidiaries are precluded from guaranteeing the debt of the parent company (the "Non-Guarantors"), based on current agreements in effect. The Company's remaining subsidiaries (the "Guarantors") are not restricted from serving as guarantors of the parent company debt. The Guarantors are comprised of Harborside Healthcare Limited Partnership, Belmont Nursing Center Corp., Orchard Ridge Nursing Center Corp., Oakhurst Manor Nursing Center Corp., Riverside Retirement Limited Partnership, Harborside 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 September 30, 2000 and September 30, 2001; the condensed consolidating results of operations for the three-month and nine-month periods ended September 30, 2000 and 2001; and the consolidating cash flows for the nine-month periods ended September 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.

F. 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; 250,000 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

F. Condensed Consolidating Financial Information (Continued)

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 7,842	$ 2,023	$ -	$ 9,865
Accounts receivable, net of allowance for doubtful accounts of $3,694	-	29,684	15,234	-	44,918
Intercompany receivable	145,466	-	-	(145,466)	-
Prepaid expenses and other	1,262	9,686	1,740	-	12,688
Total current assets	146,728	47,212	18,997	(145,466)	67,471
Restricted cash	-	4,922	734	-	5,656
Investment in limited partnership	15,584	-	4,044	(19,628)	-
Property and equipment, net	-	86,568	21,113	-	107,681
Deferred financing and other non-current assets, net	729	2,797	968	-	4,494
Other assets, net	1,000	-	-	-	1,000
Note receivable	-	7,487	-	-	7,487
Total assets	$ 164,041	$ 148,986	$ 45,856	$(165,094)	$ 193,789
LIABILITIES					
Current liabilities:					
Current maturities of long-term debt	$ 3,500	$ 22	$ 247	$ -	$ 3,769
Accounts payable	1	10,688	2,125	-	12,814
Intercompany payable	-	114,297	15,045	(129,342)	-
Employee compensation and benefits	-	14,690	3,356	-	18,046
Other accrued liabilities	-	5,109	1,424	-	6,533
Accrued interest	442	-	-	-	442
Current portion of deferred income	-	-	-	521	521
Total current liabilities	3,943	144,806	22,197	(128,821)	42,125
Long-term portion of deferred income	-	572	1,566	(521)	1,617
Long-term debt	97,355	1,484	15,488	-	114,327
Long-term accrued interest	48,324	-	-	-	48,324
Total liabilities	149,622	146,862	39,251	(129,342)	206,393
13% Convertible exchangeable preferred stock, redeemable, $.01 par value with a liquidation value of $1,000 per share; 100,000 shares authorized; 15,774 shares issued and outstanding	15,774	-	-	-	15,774
STOCKHOLDERS' EQUITY (DEFICIT)					
Common stock, $.01 par value; 40,000,000 shares authorized; 15,275,664 shares issued	153	2,569	3,885	(6,454)	153
Additional paid-in capital	188,261	-	-	227	188,488
Common stock in treasury, at cost, 7,349,832 shares	(183,746)	-	-	-	(183,746)
Retained earnings (accumulated deficit)	(6,023)	(25,200)	(4,354)	2,304	(33,273)
Partners' equity	-	24,755	7,074	(31,829)	-
Total stockholders' equity (deficit)	(1,355)	2,124	6,605	(35,752)	(28,378)
Total liabilities and stockholders' equity (deficit)	$ 164,041	$ 148,986	$ 45,856	$(165,094)	$ 193,789

F. Condensed Consolidating Financial Information (Continued)

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

	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 tax expense (benefit)	(699)	(3,708)	(312)	61	(4,658)
Net income (loss)	$ (1,091)	$ (5,756)	$ (489)	$ 50	$ (7,286)

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ -	$ 63,466	$ 26,493	$ (1,749)	$ 88,210
Expenses:					
Facility operating	-	51,030	21,928	(1,749)	71,209
General and administrative	21	4,784	-	-	4,805
Service charges paid to former affiliate	-	250	-	-	250
Amortization of prepaid management fee	300	-	-	-	300
Depreciation and amortization	52	1,522	543	-	2,117
Facility rent	-	4,953	2,233	-	7,186
Facility reorganization costs	-	750	-	-	750
Management fees paid to affiliates	-	(1,550)	1,550	-	-
Total expenses	373	61,739	26,254	(1,749)	86,617
Income (loss) from operations	(373)	1,727	239	-	1,593
Other:					
Interest expense, net	278	1,316	503	-	2,097
Other (income)	-	-	-	(49)	(49)
Income (loss) before income taxes	(651)	411	(264)	49	(455)
Income tax expense	-	-	-	-	-
Net income (loss)	$ (651)	$ 411	$ (264)	$ 49	$ (455)

F. Condensed Consolidating Financial Information (Continued)

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

	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 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)

HARBORSIDE HEALTHCARE CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
For the nine months ended September 30, 2001
(Unaudited)
(dollars in thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Total net revenues	$ -	$ 181,868	$ 78,976	$ (4,421)	$ 256,423
Expenses:					
Facility operating	-	146,067	65,738	(4,421)	207,384
General and administrative	57	14,367	-	-	14,424
Service charges paid to former affiliate	-	801	-	-	801
Amortization of prepaid management fee	900	-	-	-	900
Depreciation and amortization	473	4,514	1,561	-	6,548
Facility rent	-	14,981	6,579	-	21,560
Financial restructuring costs	8,645	400	-	-	9,045
Facility reorganization costs	-	750	-	-	750
Management fees paid to affiliates	-	(4,682)	4,682	-	-
Total expenses	10,075	177,198	78,560	(4,421)	261,412
Income (loss) from operations	(10,075)	4,670	416	-	(4,989)
Other:					
Interest expense, net	2,000	6,463	1,311	-	9,774
Other (income)	-	-	-	(138)	(138)
Income (loss) before income taxes	(12,075)	(1,793)	(895)	138	(14,625)
Income tax expense	-	-	-	-	-
Net income (loss)	$ (12,075)	$ (1,793)	$ (895)	$ 138	$(14,625)

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

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Operating activities:					
Net cash provided by operating activities:	$ 3,904	$ 4,594	$ 3,975	$ -	$ 12,473
Investing activities:					
Additions to property and equipment	-	(5,050)	(3,145)	-	(8,195)
Additions to deferred financing and other non-current assets	-	(200)	-	-	(200)
Transfers to restricted cash, net	-	(806)	(45)	-	(851)
Net cash (used) by investing activities	-	(6,056)	(3,190)	-	(9,246)
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	(4,000)	-	-	-	(4,000)
Receipt in connection with lease	102	-	-	-	102
Payments of long-term debt	-	(13)	(169)	-	(182)
Dividends paid on preferred stock	(6)	-	-	-	(6)
Net cash (used) by financing activities	(3,904)	(13)	(169)	-	(4,086)
Net increase (decrease) in cash and cash equivalents	-	(1,475)	616	-	(859)
Cash and cash equivalents, beginning of period	-	9,317	1,407	-	10,724
Cash and cash equivalents, end of period	$ -	$ 7,842	$ 2,023	$ -	$ 9,865
Supplemental Disclosure:					
Interest paid	$ 855	$ 2,763	$ 561	$ -	$ 4,179
Income taxes paid	$ 112	$ -	$ -	$ -	$ 112
Accretion of preferred stock dividends	$ 3,256	$ -	$ -	$ -	$ 3,256

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, through its subsidiaries, ("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, 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 September 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 September 30,		For the nine months ended September 30,	
	2000	2001	2000	2001
Patient days (2):				
Private and other	115,761	105,083	343,010	313,113
Medicare	56,421	73,749	179,541	217,259
Medicaid	313,695	301,602	932,343	898,624
Total	485,877	480,434	1,454,894	1,428,996
Total net revenues:				
Private and other	26.0%	22.5%	26.2%	22.8%
Medicare	23.8%	30.8%	24.7%	30.6%
Medicaid	50.2%	46.7%	49.1%	46.6%
Total	100.0%	100.0%	100.0%	100.0%
Average Occupancy Rate (3)	89.7%	88.8%	90.2%	89.0%
Quality Mix (4)	49.8%	53.3%	50.9%	53.4%

(1) Includes one managed facility with 106 licensed beds on September 30, 2000 and September 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 costs associated with its regional and corporate operations.

Three Months Ended September 30, 2000 Compared to Three Months Ended September 30, 2001

Total Net Revenues. Total net revenues increased by $7,283,000 or 9.0%, from $80,927,000 in the third quarter of 2000 to $88,210,000 in the third 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 89.7% during the third quarter of 2000 to 88.8% during the third quarter of 2001. Average net patient service revenues (including ancillary services) per patient day at the Company's facilities increased from $164 in the third quarter of 2000 to $181 in the third quarter of 2001. The Company's average Medicare Part A per diem rate increased from $323 per Medicare patient day in the third quarter of 2000 to $344 per Medicare patient day in the third quarter of 2001, while the Company's average per diem Medicaid rate increased from $129 in the third quarter of 2000 to $136 in the third 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 $323 per Medicare patient day during the third quarter of 2000 to $344 per Medicare patient day during the third quarter of 2001. The Company's quality mix of private, Medicare and insurance revenues was 49.8% for the three months ended September 30, 2000 as compared to 53.3% for the three months ended September 30, 2001.

Facility Operating Expenses. Facility operating expenses increased by $6,176,000 or 9.5%, from $65,033,000 in the third quarter of 2000 to $71,209,000 in the third 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. 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 $519,000, from $4,286,000 in the third quarter of 2000 to $4,805,000 in the third quarter of 2001. The Company reimburses a former affiliate for data processing services provided to the Company. During the third quarter of 2000, such reimbursements totaled $295,000 compared to $250,000 during the third quarter of 2001.

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

Depreciation and Amortization. Depreciation and amortization decreased from $2,613,000 in the third quarter of 2000 to $2,117,000 in the third 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 third 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 $1,481,000 from $5,705,000 in the third quarter of 2000 to $7,186,000 in the third quarter of 2001 as a result of the refinancing of the Company's Cleveland-area facilities.

Facility Reorganization Costs. During the third quarter of 2001, the Company incurred a non-recurring charge of $750,000 in connection with its decision to revise the marketing approach for facilities operated through subsidiaries in Florida. The Company determined that a local community-based marketing approach would better serve the needs of these facilities. The marketing approach stresses ties to the local community and required renaming these facilities in order to emphasize this approach. In connection with this effort, the Company also restructured certain of its subsidiaries effective October 1, 2001. In order to implement this strategy, the Company incurred non-recurring marketing, legal and other expenses.

Interest Expense, net. Interest expense, net, decreased from $5,836,000 in the third quarter of 2000 to $2,097,000 in the third 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 third quarter of 2000, an income tax benefit of $4,658,000 was recognized for that period. As a result of the uncertainty of future realization of deferred tax assets, for the quarter ended September 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 $7,286,000 in the third quarter of 2000 as compared to $455,000 in the third quarter of 2001.

Nine Months Ended September 30, 2000 Compared to Nine Months Ended September 30, 2001

Total Net Revenues. Total net revenues increased by $17,106,000 or 7.2%, from $239,317,000 in the first nine months of 2000 to $256,423,000 in the first nine months 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 90.2% during the first nine months of 2000 to 89.0% during the first nine months of 2001. Average net patient service revenues (including ancillary services) per patient day at the Company's facilities increased from $162 in the first nine months of 2000 to $177 in the first nine months of 2001. The Company's average Medicare Part A per diem rate increased from $313 per Medicare patient day in the first nine months of 2000 to $338 per Medicare patient day in the first nine months of 2001, while the Company's average per diem Medicaid rate increased from $126 in the first nine months of 2000 to $133 in the first nine months 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 $313 per Medicare patient day during the first nine months of 2000 to $338 per Medicare patient day during the first nine months of 2001. The Company's quality mix of private, Medicare and insurance revenues was 50.9% for the nine months ended September 30, 2000 as compared to 53.4% for the nine months ended September 30, 2001.

Facility Operating Expenses. Facility operating expenses increased by $15,653,000 or 8.2%, from $191,731,000 in the first nine months of 2000 to $207,384,000 in the first nine months 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. 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 $757,000, from $13,667,000 in the first nine months of 2000 to $14,424,000 in the first nine months of 2001. The Company reimburses a former affiliate for data processing services provided to the Company. During the first nine months of 2000, such reimbursements totaled $845,000 compared to $801,000 during the first nine months of 2001.

Amortization of Prepaid Management Fees. Amortization of prepaid management fees was $900,000 during the first nine months of 2000 and the first nine months of 2001.

Depreciation and Amortization. Depreciation and amortization decreased from $7,996,000 in the first nine months of 2000 to $6,548,000 in the first nine months 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 nine months 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 $4,531,000, from $17,029,000 in the first nine months of 2000 to $21,560,000 in the first nine months 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 $9,045,000. 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.

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 $8,914,000. The principal components of this charge included the write-off of capital leased assets in excess of the related capital lease obligation ($5,700,000) and the write-off of deferred financing costs ($1,800,000) related to the Company's bank credit facility.

Facility Reorganization Costs. During the third quarter of 2001, the Company incurred a non-recurring charge of $750,000 in connection with its decision to revise the marketing approach for facilities operated through subsidiaries in Florida. The Company determined that a local community-based marketing approach would better serve the needs of these facilities. The marketing approach stresses ties to the local community and required renaming these facilities in order to emphasize this approach. In connection with this effort, the Company also restructured certain of its subsidiaries effective October 1, 2001. In order to implement this strategy, the Company incurred non-recurring marketing, legal and other expenses.

Interest Expense, net. Interest expense, net, decreased from $17,330,000 in the first nine months of 2000 to $9,774,000 in the first nine months 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 nine months of 2000, an income tax benefit of $7,495,000 was recognized for that period.

As a result of the uncertainty of future realization of deferred tax assets, for the nine months ended September 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 $11,723,000 in the first nine months of 2000 as compared to $14,625,000 in the first nine months 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 become 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 (as of May 10, 2001) 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, 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 $9,045,000. 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 a total of 4,326,641 shares of common stock at $0.01 per share were issued on May 10, 2001.

As of September 30, 2001, total borrowings under the New Credit Facility were $53,061,000 and consisted of $28,750,000 of revolver loans, $13,700,000 of synthetic lease obligations and $10,611,000 of undrawn letters of credit. As of September 30, 2001, the Company had approximately $6,939,000 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 nine months of 2000 provided net cash of $22,200,000 as compared to providing net cash of $12,473,000 during the first nine months of 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 $7,282,000 during the first nine months of 2000 as compared to $9,246,000 used during the first nine months 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

Net cash used by financing activities was $8,280,000 during the first nine months of 2000 as compared to $4,086,000 during the first nine months of 2001. During the first nine months of 2000, the Company repaid a $5,000,000 note payable from an affiliate of Investcorp S.A. Substantially all of the remaining cash used in the first nine months 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. The financing activities during the first nine months 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 $4.0 million of borrowings outstanding under the New Credit Facility. As of September 30, 2001, the Company had repaid $4.0 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.

As of September 30, 2001, in addition to the Discount Notes (which had an accreted balance of $72,104,000), the Company had two mortgage loans outstanding totaling $17,242,000 and $28,750,000 in advances on its New Credit Facility. One mortgage loan had an outstanding principal balance of $15,735,000 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 operating revenues of the four mortgaged facilities in each applicable year and operating 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, 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 $10,000,000. 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 general and professional liability insurance policy expired on September 1, 2001. Given the overall state of the professional and general liability insurance market for the long-term care industry and the lack of available underwriters in the State of Florida, the Company determined that, effective September 1, 2001, it would be more cost effective to assume a higher level of retained risk. As a result, the Company implemented a new professional liability program effective on that date which resulted in the Company becoming self-insured with respect to Florida facilities. With respect to the non-Florida facilities, the Company retains insurance with unaffiliated commercial insurance companies in amounts and with deductibles which management believes are appropriate for its operations. At this time, the Company estimates that its annual cost for professional and general liability insurance will increase from approximately $2,500,000 under the prior program to approximately $6,500,000 under the new program. There can be no assurance, however, that the coverage limits of the Company’s insurance program will be adequate or that insurance will continue to be available to the Company in the future. Although this year the State of Florida has implemented certain tort reforms related to professional liability claims, the Company is unable at this time to quantify the likely effect of this legislation on the Company’s claims experience.

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 nine months ended September 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 nine-month periods ending September 30, 2000 or September 30, 2001.

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

None.

(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
Chairman and Chief Executive Officer

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

DATE: November 14, 2001