GENESIS HEALTH VENTURES INC /PA
Form 10-Q
March 22, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2000

or

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

For the transition period from ____________________ to ____________________

Commission File Number: 1-11666

GENESIS HEALTH VENTURES, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	06-1132947
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

101 East State Street
Kennett Square, Pennsylvania 19348
(Address, including zip code, of principal executive offices)

(610) 444-6350
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (i) 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, and (ii) has been subject to such filing requirements for the past 90 days.

YES [x]   NO [ ]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Note: The Company is currently in the process of formulating a plan of reorganization in connection with the registrant and certain of its subsidiaries' filings under Chapter 11 of the Bankruptcy Code. Consequently, no plan of reorganization has been submitted to or confirmed by a bankruptcy court.

YES [x]   NO [ ]

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of March 13, 2001: 48,641,194 shares of common stock

TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this report, and in our other public filings and releases, which are not historical facts contain "forward-looking" statements (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties and are subject to change at any time. These forward-looking statements may include, but are not limited to statements as to:

- certain statements in "Management's Discussion and Analysis of Financial Condition and Results Of Operations," such as our ability or inability to meet our liquidity needs, make scheduled debt and interest payments, meet expected future capital expenditure requirements, obtain affordable insurance coverage and control costs; and the expected effects of government regulation on reimbursement for services provided and on the costs of doing business; and

- certain statements in "Legal Proceedings" regarding the effects of litigation.

The forward-looking statements involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control. You are cautioned that any statements are not guarantees of future performance and that actual results and trends in the future may differ materially.

Factors that could cause actual results to differ materially include, but are not limited to the following:

- our bankruptcy cases and our ability to continue as a going concern;
- certain covenant amendments to our debtor-in-possession financing that may be terminated;
- our default under our senior credit agreement and our senior subordinated and other notes;
- confirmation of a restructuring plan;
- our substantial indebtedness and significant debt service obligations;
- our ability to retain and attract management and other key personnel;
- our ability or inability to access capital and the related cost of the capital necessary to fund future growth;
- the impact of health care reform, including the Medicare Prospective Payment System ("PPS"), the Balanced Budget Refinement Act ("BBRA") and the Benefit Improvement and Protection Act of 2000 ("BIPA") and the adoption of cost containment measures by the federal and state governments;
- the adoption of cost containment measures by other third party payors;
- the impact of government regulation, including our ability to operate in a heavily regulated environment and to satisfy regulatory authorities;
- the occurrence of changes in the mix of payment sources utilized by patients to pay for services;
- competition in our industry;
- our ability to consummate or complete development projects or to profitably operate or successfully integrate enterprises into our other operations; and
- changes in general economic conditions.

Our bankruptcy cases and recurring losses, among other things, raise substantial doubt about our ability to continue as a going concern.

On June 22, 2000, (the "Petition Date") Genesis Health Ventures, Inc. and certain of its direct and indirect subsidiaries filed for voluntary relief under Chapter 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). On the same date, Genesis' 43.6% owned affiliate, The Multicare Companies, Inc. ("Multicare") and certain of its affiliates also filed for relief under Chapter 11 of the Bankruptcy Code with the Bankruptcy Court (singularly and collectively referred to herein as "the Chapter 11 cases" or "the bankruptcy cases" unless the context otherwise requires). Both companies are currently operating as debtors-in-possession subject to the jurisdiction of the Bankruptcy Court. These cases, among other factors such as the Company's recurring losses and defaults under various loan agreements, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern with the realization of assets and the settlement of liabilities and commitments in the normal course of business. However, as a result of the bankruptcy cases and circumstances relating to this event, including the Company's leveraged financial structure and losses from operations, such realization of assets and liquidation of liabilities is subject to significant uncertainty. While under the protection of Chapter 11, the Company may sell or otherwise dispose of assets, and liquidate or settle liabilities, for amounts other than those reflected in the financial statements. Further, a plan of reorganization could materially change the amounts reported in the financial statements, which do not give effect to all adjustments of the carrying value of assets or liabilities that might be necessary as a consequence of a plan of reorganization. Additionally, a deadline of December 19, 2000 was established for the assertion of pre-bankruptcy claims against the Company (commonly referred to as a bar date); including contingent, unliquidated or disputed claims, which claims could result in an increase in liabilities subject to compromise as reported in the accompanying consolidated financial statements. The Company's ability to continue as a going concern is dependent upon, among other things, confirmation of a plan of reorganization, future profitable operations, the ability to comply with the terms of the Company's debtor-in-possession financing agreements and the ability to generate sufficient cash from operations and financing arrangements to meet obligations.

These and other factors have been discussed in more detail in the Company's periodic reports.

3

Part I: FINANCIAL INFORMATION

Item 1. Financial Statements

Genesis Health Ventures, Inc. and Subsidiaries
(Debtor-in-Possession)
Unaudited Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

December 3

	2000
Assets	
Current assets:	
Cash and equivalents	$ 19,
Restricted investments in marketable securities	31,
Accounts receivable, net of allowance for doubtful accounts	456,
Inventory	65,
Prepaid expenses and other current assets	61,
Total current assets	634,
Property, plant and equipment, net	1,097,
Notes receivable and other investments	38,
Other long-term assets	105,
Investments in unconsolidated affiliates	23,
Goodwill and other intangibles, net	1,226,
Total assets	$ 3,126,
Liabilities and Shareholders' Deficit	
Current liabilities not subject to compromise:	
Current installments of long-term debt	$ 154,
Accounts payable and accrued expenses	183,
Total current liabilities	337,
Liabilities subject to compromise	2,449,
Long-term debt	10,
Deferred income taxes	54,
Deferred gain and other long-term liabilities	50,
Minority interest	54,
Redeemable preferred stock, including accrued dividends (subject to compromise)	449,
Shareholders' deficit:	
Series G Cumulative Convertible Preferred Stock, par $.01, authorized 5,000,000 shares, 589,714 issued and outstanding at December 31, 2000 and September 30, 2000	
Common stock, par $.02, authorized 200,000,000 shares, issued and outstanding 48,653,294 and 48,641,194 at December 31, 2000 and September 30, 2000	
Additional paid-in capital	803,
Accumulated deficit	(1,081,
Accumulated other comprehensive loss	(1,
Treasury stock, at cost	(
Total shareholders' deficit	(279,
Total liabilities and shareholders' deficit	$ 3,126,

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Genesis Health Ventures, Inc. and Subsidiaries
(Debtor-in-Possession)
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)

Net revenues:	
Inpatient services	$
Pharmacy and medical supply services	
Other revenue	
Total net revenues	
Operating expenses:	
Operating expenses	
Debt restructuring, reorganization costs and other charges	
Gain on sale of eldercare center	
Multicare joint venture restructuring charge	
Depreciation and amortization	
Lease expense	
Interest expense (contractual interest for the three months ended December 31, 2000 is $61,752)	
Loss before income tax benefit, minority interest, equity in net loss of unconsolidated affiliates, and cumulative effect of accounting change	
Income tax benefit	
Loss before minority interest, equity in net loss of unconsolidated affiliates, and cumulative effect of accounting change	
Minority interest	
Equity in net loss of unconsolidated affiliates	
Loss before cumulative effect of accounting change	
Cumulative effect of accounting change	
Net loss	
Preferred stock dividends	
Loss attributed to common shareholders	$
Per common share data:	
Basic and Diluted	
Loss before cumulative effect of accounting change	$
Net loss	$
Weighted average shares of common stock	48,

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Genesis Health Ventures, Inc. and Subsidiaries
(Debtor-in-Possession)
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

Cash flows from operating activities:
Net loss
Net charges included in operations not requiring funds
Changes in assets and liabilities:
Accounts receivable
Accounts payable and accrued expenses
Other, net
Net cash used in operating activities before debt restructuring and reorganization costs
Cash paid for debt restructuring and reorganization costs
Net cash used in operating activities
Cash flows from investing activities:
Net purchases of restricted marketable securities
Proceeds from the sale of an eldercare center
Capital expenditures
Repayment of advances to unconsolidated affiliates
Notes receivable and other investments, and other long-term asset additions, net
Net cash used in investing activities
Cash flows from financing activities:
Net borrowings under working capital revolving credit facilities
Repayment of long-term debt and payment of sinking fund requirements
Proceeds from issuance of long-term debt
Proceeds from issuance of common stock
Net cash provided by financing activities
Net increase (decrease) in cash and equivalents
Cash and equivalents
Beginning of period
End of period

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Genesis Health Ventures, Inc. and Subsidiaries
(Debtor-in-Possession)
Notes To Unaudited Condensed Consolidated Financial Statements

1. Organization and Basis of Presentation

Genesis Health Ventures, Inc. and its subsidiaries, ("the Company", "Genesis", "we" or "our") provide a broad range of healthcare services to the geriatric population, principally within five geographic markets in the eastern United States. These services include healthcare services traditionally provided in eldercare centers and specialty medical services; such as rehabilitation therapy, institutional pharmacy and medical supply services, community-based pharmacies and management services, provided to independent geriatric care providers.

Prior to October 1, 1999, Genesis accounted for its 43.6% owned investment in The Multicare Companies, Inc. ("Multicare") using the equity method of accounting. Upon consummation of a restructuring transaction, more fully described in Footnote 5 - Multicare Transaction and its Restructuring, Genesis consolidated the financial results of Multicare since Genesis has managerial, operational and financial control of Multicare under the terms of the Restructuring Agreement. Accordingly, Multicare's assets, liabilities, revenues and expenses are consolidated at their recorded historical amounts and the financial impact of transactions between Genesis and Multicare are eliminated in consolidation. The non-Genesis shareholders' remaining 56.4% interest in Multicare is carried as minority interest based on their proportionate share of Multicare's historical book equity. For so long as there is a minority interest in Multicare, the minority shareholders' proportionate share of Multicare's net income or loss will be recorded through an adjustment to minority interest. If losses applicable to the minority shareholders exceed the minority interest in the equity of Multicare, such excess and future losses applicable to the minority shareholders will be charged to the consolidated results of Genesis.

Other than Multicare, investments in unconsolidated affiliated companies, owned 20% to 50% inclusive, are stated at cost of acquisition plus the Company's equity in undistributed net income (loss) since acquisition. The change in the equity in net income (loss) of these companies is reflected as a component of net income or loss on the accompanying unaudited condensed consolidated statements of operations.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2000. The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. On June 22, 2000, (the "Petition Date") Genesis Health Ventures, Inc. and certain of its direct and indirect subsidiaries filed for voluntary relief under Chapter 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). On the same date, Multicare and certain of its affiliates also filed for relief under Chapter 11 of the Bankruptcy Code with the Bankruptcy Court (singularly and collectively referred to herein as "the Chapter 11 cases" or "the bankruptcy cases" unless the context otherwise requires). Both companies are currently operating as debtors-in-possession subject to the jurisdiction of the Bankruptcy Court. These cases, among other factors such as the Company's recurring losses and defaults of various loan agreements, raise substantial doubt about the Company's ability to continue as a going concern. See Footnote 2 - Voluntary Petitions for Relief Under Chapter 11 of the United States Bankruptcy Code.

The accompanying unaudited condensed consolidated financial statements are unaudited and have been prepared in accordance with generally accepted accounting principles. In the opinion of management, the unaudited condensed consolidated financial statements include all necessary adjustments (consisting of normal recurring accruals and, subsequent to the Petition Date, all adjustments pursuant to the American Institute of Certified Public Accountants ("AICPA") Statement of Position No. 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7")) for a fair presentation of the financial position and results of operations for the periods presented. SOP 90-7 requires a segregation of liabilities subject to compromise by the Bankruptcy Court as of the Petition Date and identification of all transactions and events that are directly associated with the reorganization of the Company. Pursuant to SOP 90-7, prepetition liabilities are reported on the basis of the expected amounts of such allowed claims, as opposed to the amounts for which those claims may be settled. Under a confirmed final plan of reorganization, those claims may be settled at amounts substantially less than their allowed amounts.

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Voluntary Petition for Relief Under Chapter 11 of the United States Bankruptcy Code

Except for relief that might otherwise be granted by the Bankruptcy Court overseeing the Chapter 11 cases, and further subject to certain statutory exceptions, the automatic stay protection afforded by Chapter 11 of the Bankruptcy Code cases prevents any creditor or other third parties from taking any action in connection with any defaults under prepetition debt obligations or agreements of the Company and those of its subsidiaries or affiliates which are debtors in the Chapter 11 cases. In connection with the Chapter 11 cases, the Company expects to develop a plan of reorganization that will be approved by its creditors and confirmed by the Bankruptcy Court overseeing the Company's Chapter 11 cases. In the event the plan of reorganization is accepted, continuation of the business thereafter is dependent on the Company's ability to achieve successful future operations.

The Bankruptcy Court approved, on a final basis, borrowings of up to $250,000,000 in respect of the Genesis debtor-in-possession financing facility (the "Genesis DIP Facility") with Mellon Bank, N.A. as Agent and a syndicate of lenders. The Bankruptcy Court also approved, on a final basis, borrowings of up to $50,000,000 in respect of the Multicare debtor-in-possession financing facility (the "Multicare DIP Facility") with Mellon Bank, N.A. as Agent and a syndicate of lenders. The Genesis and Multicare Debtors intend to utilize the DIP Facilities of the respective companies and existing cash flows to fund ongoing operations during the Chapter 11 cases. As of December 31, 2000, approximately $154,500,000 of borrowings under the Genesis DIP Facility were outstanding and no borrowings were outstanding under the Multicare DIP Facility.

On June 23, 2000 the Bankruptcy Court entered an order authorizing the Debtors to pay certain prepetition wages, salaries, benefits and other employee obligations, as well as to continue in place the Debtors' various employee compensation programs and procedures. On that date, the Bankruptcy Court also authorized the Debtors to pay, among other claims, the prepetition claims of certain critical vendors and patients. All other unsecured prepetition liabilities are classified in the unaudited condensed consolidated balance sheet as liabilities subject to compromise. The Debtors intend to remain in possession of their assets and continue in the management and operation of their properties and businesses, and to pay the post-petition claims of their various vendors and providers in the ordinary course of business.

A summary of the principal categories of claims classified as liabilities subject to compromise under the Chapter 11 cases as of December 31, 2000 and September 30, 2000 follows (in thousands):

	December 31, 2000	Sep
Liabilities subject to compromise:		
Revolving credit and term loans	$ 1,483,898	$
Senior subordinated notes	617,643	
Revenue bonds and other indebtedness	156,499	
Subtotal - long-term debt subject to compromise	$ 2,258,040	$
Accounts payable and accrued liabilities	63,918	
Accrued interest (including a $28,331 swap termination fee)	87,342	
Accrued preferred stock dividends on Series G Preferred Stock	39,892	
	$ 2,449,192	$

A summary of the principal categories of debt restructuring and reorganization costs follows (in thousands):

	For the Months E December 3
Debt restructuring and reorganization costs:	
Legal, accounting, bank and consulting fees	$ 10,
Employee benefit related costs	4,
	$ 14,

3. Certain Significant Risks and Uncertainties

Going Concern

In connection with the Chapter 11 cases, the Company expects to develop a plan of reorganization that will be approved by its creditors and confirmed by the Bankruptcy Court overseeing the Company's Chapter 11 cases. In the event the plan of reorganization is accepted, continuation of the business thereafter is dependent on the Company's ability to achieve successful future operations. The Company's ability to continue as a going concern is dependent upon, among other things, confirmation of a plan of reorganization, future profitable operations, the ability to comply with the terms of the Company's debtor-in-possession financing agreements and the ability to generate sufficient cash from operations and financing arrangements to meet obligations. There can be no assurances the Company will be successful in achieving a confirmed plan of reorganization, future profitable operations, compliance with the terms of the debtor-in-possession financing arrangements and sufficient cash flows from operations and financing arrangements to meet obligations.

On February 14, 2001, Genesis and Multicare received waivers from their respective lenders (the "DIP Lenders") under the Genesis DIP Facility and the Multicare DIP Facility (collectively, the "DIP Facilities") for any event of default regarding certain financial covenants relating to minimum EBITDA (earnings before interest, taxes, depreciation and amortization) that may have resulted from asset impairment and other non-recurring charges recorded by Genesis and Multicare in the fourth quarter of Fiscal 2000. The waivers extend through December 31, 2000. In addition, Genesis and Multicare received certain amendments to the DIP Facilities, including an amendment that makes the minimum EBITDA covenants for both companies less restrictive in future periods (the "EBITDA Amendment"). The EBITDA Amendment can be terminated by the DIP Lenders if, on or before April 2, 2001, the Bankruptcy Court has not approved payments by Genesis and Multicare to the DIP Lenders of amendment fees related thereto. There can be no assurances that Bankruptcy Court approval for the amendment fee will be granted, and as a result, there can be no assurances that the DIP Lenders will not exercise their rights under the DIP Facilities in an event of default, including but not limited to, precluding future borrowings under the DIP Facilities.

Following the Petition Date, Genesis continues to pay interest on approximately $1,100,000,000 of certain prepetition senior long term debt obligations, which has, in part, resulted in Genesis' active borrowing under the Genesis DIP Facility. Multicare discontinued paying interest on virtually all of its prepetition long term debt obligations following the Petition Date, which has, in part, resulted in Multicare's ability to fund capital and working capital needs through operations without borrowing under the Multicare DIP Facility. An event of default and any related borrowing restrictions placed under the respective DIP Facilities could have a material adverse effect on the financial position of Genesis and Multicare, resulting in factors including, but not limited to:

- Genesis' inability to continue funding prepetition senior long term debt interest obligations, which could be disruptive to ongoing reorganization negotiations;
- Genesis' and / or Multicare's inability to extend required letters of credit in the ordinary course of business;

- Genesis' and / or Multicare's inability to fund capital and working capital requirements; and

- Genesis' and / or Multicare's inability to successfully reorganize.

Revenue Sources

The Company receives revenues from Medicare, Medicaid, private insurance, self-pay residents, other third party payors and long-term care facilities which utilize our specialty medical services. The healthcare industry is experiencing the effects of the federal and state governments' trend toward cost containment, as government and other third party payors seek to impose lower reimbursement and utilization rates and negotiate reduced payment schedules with providers. These cost containment measures, combined with the increasing influence of managed care payors and competition for patients, have resulted in reduced rates of reimbursement for services provided by the Company.

Congress has enacted three major laws during the past five years that have significantly altered payment for nursing home and medical ancillary services. The Balanced Budget Act of 1997 ("the 1997 Act"), signed into law on August 5, 1997, reduced federal spending on the Medicare and Medicaid programs. As implemented by HCFA, the 1997 Act has had an adverse impact on the Medicare revenues of many skilled nursing facilities. There have been three primary problems with the 1997 Act. First, the base year calculations understate costs. Second, the market basket index used to trend payments forward does not adequately reflect market experience. Third, the RUGs case mix allocation is not adequately predictive of the costs of care for patients, and does not equitably allocate funding, especially for non-therapy ancillary services. The Medicare Balanced Budget Refinement Act ("BBRA"), enacted in November 1999 addressed a number of the funding difficulties caused by the 1997 Act. A second enactment, the Benefits Improvement and Protection Act of 2000 ("BIPA"), was enacted on December 15, 2000, further modifying the law and restoring additional funding.

The reimbursement rates for pharmacy services under Medicaid are determined on a state-by-state basis subject to review by HCFA and applicable federal law. In most states, pharmacy services are priced at the lower of "usual and customary" charges or cost (which generally is defined as a function of average wholesale price and may include a profit percentage) plus a dispensing fee. Certain states have "lowest charge legislation" or "most favored nation provisions" which require our institutional pharmacy and medical supply operation ("NeighborCare(R)") to charge Medicaid no more than its lowest charge to other consumers in the state. During 2000, Federal Medicaid requirements establishing payment caps on certain drugs were revised ("Federal Upper Limits"). The final rulemaking was substantially modified minimizing the impact of the new rules on NeighborCare operations.

10

Pharmacy coverage and cost containment are important policy debates at both the Federal and state levels. Congress has considered proposals to expand Medicare coverage for out patient pharmacy services. Enactment of such legislation could affect institutional pharmacy services. Likewise, a number of states have proposed cost containment initiatives pending. Changes in payment formulas and delivery requirements could impact NeighborCare.

Congress and state governments continue to focus on efforts to curb spending on health care programs such as Medicare and Medicaid. Such efforts have not been limited to skilled nursing facilities, but have and will most likely include other services provided by us, including pharmacy and therapy services. We cannot at this time predict the extent to which these proposals will be adopted or, if adopted and implemented, what effect, if any, such proposals will have on us. Efforts to impose reduced allowances, greater discounts and more stringent cost controls by government and other payors are expected to continue.

While the Company has prepared certain estimates of the impact of the above changes, it is not possible to fully quantify the effect of recent legislation, the interpretation or administration of such legislation or any other governmental initiatives on its business. Accordingly, there can be no assurance that the impact of these changes will not be greater than estimated or that any future healthcare legislation will not adversely affect the Company's business. There can be no assurance that payments under governmental and private third party payor programs will be timely, will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs. The Company's financial condition and results of operations may be affected by the reimbursement process, which in the Company's industry is complex and can involve lengthy delays between the time that revenue is recognized and the time that reimbursement amounts are settled.

Certain service contracts permit our NeighborCare pharmacy operations to provide services to HCR Manor Care constituting approximately eleven percent and four percent of the net revenues of NeighborCare and Genesis, respectively. These service contracts with HCR Manor Care are the subject of certain litigation. See "Legal Proceedings".

NeighborCare pharmacy operations provide services to Mariner Post-Acute Network, Inc. and Mariner Health Group, Inc. (collectively, "Mariner") under certain service contracts. On January 18, 2000, Mariner filed voluntary petitions under Chapter 11 with the Bankruptcy Court. To date, the service contracts with Mariner have been honored; however, Mariner has certain rights under the protection of the Bankruptcy Court to reject these contracts, which represent six percent and two percent of the net revenues of NeighborCare and Genesis, respectively. Genesis participates as a member of the official Mariner unsecured creditors committee.

4. Long-Term Debt

Long-term debt at December 31, 2000 and September 30, 2000 consists of the following (in thousands):

	December 31, 2000
Secured debt	
Debtor-in-possession financing facilities	$ 154,500
Credit facilities	1,483,898
Mortgage and other secured debt, including unamortized debt premium	158,522
Total secured debt	1,796,920
Unsecured debt	
Senior subordinated notes, net of unamortized debt discount	617,643

Notes payable and other unsecured debt	8,336
Total unsecured debt	625,979
Total Debt	2,422,899
Less:	
Current portion of long-term debt	(154,500)
Long term debt subject to compromise	(2,258,040)
Long-term debt	$ 10,359

In connection with the Chapter 11 cases, no principal or interest payments have been made on certain indebtedness incurred by the Company prior to June 22, 2000 ("Prepetition Debt"). With regard to Multicare, no principal or interest payments have been made on $424,110,000 of the Multicare Credit Facility, $250,000,000 of senior subordinated notes and $53,066,000 of other indebtedness. Multicare continues to pay interest on an aggregate outstanding balance of $10,161,000 in connection with two secured loans of subsidiaries not party to the Chapter 11 cases. With regard to Genesis, no principal or interest payments have been made on $370,000,000 of senior subordinated notes and approximately $103,000,000 of other indebtedness. Subsequent to June 22, 2000, Genesis repaid $40,000,000 of Tranche II Prepetition Debt under the Genesis Credit Facility and all interest incurred prior to June 22, 2000 on Prepetition Debt under the Genesis Credit Facility as adequate protection. Interest incurred on $1,059,788,000 of Prepetition Debt under the Genesis Credit Facility subsequent to June 22, 2000 continues to be paid as billed. Genesis is also current in paying interest on balances outstanding under the Genesis Debtor-in-Possession Financing.

Secured Debt

Genesis Debtor-in- Possession Financing

Among the orders entered by the Bankruptcy Court on June 23, 2000 were orders approving on an interim basis, a) the use of cash collateral by the Company and those of its subsidiaries and affiliates which had filed petitions for reorganization under Chapter 11 of the Bankruptcy Code and (excluding Multicare and its direct and indirect subsidiaries), b) authorization for the Company to enter into a secured debtor-in-possession revolving credit facility with a group of banks led by Mellon Bank, N. A., (the "Genesis DIP Facility") and authorizing advances in the interim period of up to $150,000,000 out of a possible $250,000,000 facility. On July 18, 2000, the Bankruptcy Court entered the Final Order approving the $250,000,000 Genesis DIP Facility and permitting full usage thereunder. Usage under the Genesis DIP Facility is subject to a Borrowing Base which provides for maximum borrowings (subject to the $250,000,000 commitment limit) by the Company equal to the sum of (i) up to 90% of outstanding eligible accounts receivable, as defined and (ii) up to $175,000,000 against real property. The Genesis DIP Facility, which is classified as a current liability, matures on December 21, 2001 and advances thereunder accrue interest at either Prime plus 2.25% or the Eurodollar Rate ("LIBO Rate") plus 3.75%. Proceeds of

12

the Genesis DIP Facility are available for general working capital purposes and as a condition of the loan, were required to refinance the $40,000,000 outstanding under the Company's prepetition priority Tranche II sub-facility. Additionally, $44,000,000 of proceeds were used to satisfy all unpaid interest and rent obligations to the senior secured creditors under the Fourth Amended and Restated Credit Agreement dated August 20, 1999 and the Synthetic Lease dated October 7, 1996 as adequate protection for any diminution in value of the prepetition senior secured lenders in these facilities, respectively. The Company will continue to pay interest and rent pursuant to these agreements as adequate protection. Interest is accrued and paid at the Prime Rate as announced by the administrative agent, or the applicable Adjusted LIBO Rate plus, in either event, a margin that is dependent upon a certain financial ratio test. As of December 31, 2000, borrowings outstanding under the Genesis DIP Facility were $154,500,000. The Genesis DIP Facility provides for the issuance of up to $25,000,000 in standby letters of credit. As of December 31, 2000, there were $5,710,000 in letters of credit issued thereunder, for a total utilization under the Genesis DIP Facility of $160,210,000.

Pursuant to the agreement, the Company and each of its subsidiaries named as borrowers or guarantors under the Genesis DIP Facility have granted to the lenders first priority liens and security interests (subject to valid, perfected, enforceable and nonavoidable liens of record existing immediately prior to the petition date and other carve-outs and exceptions as fully described in the Genesis DIP Facility) in all unencumbered pre- and post-petition property of the Company. The Genesis DIP Facility also has priority over the liens on all collateral pledged under (i) the Genesis Credit Facility (later defined), (ii) the Synthetic Lease dated October 7, 1996 and (iii) other obligations covered by the Collateral Agency Agreement, including any Swap Agreement, which collateral includes, but is not limited to, all personal property, including bank accounts and investment property, accounts receivable, inventory, equipment, and general intangibles, substantially all fee-owned real property, and the capital stock of Genesis and its borrower and guarantor subsidiaries.

The Genesis DIP financing agreement limits, among other things, the Company's ability to incur additional indebtedness or contingent obligations, to permit additional liens, to make additional acquisitions, to sell or dispose of assets, to create or incur liens on assets, to pay dividends and to merge or consolidate with any other person. The Genesis DIP Facility contains customary representations, warranties and covenants, including certain financial covenants relating to minimum EBITDA, occupancy and Genesis DIP Facility usage amounts and maximum capital expenditures. The breach of any such provisions, to the extent not waived or cured within any applicable grace or cure periods, could result in the Company's inability to obtain further advances under the Genesis DIP Facility and the potential exercise of remedies by the Genesis DIP Facility lenders (without regard to the automatic stay unless reimposed by the Bankruptcy Court) which could materially impair the ability of the Company to successfully reorganize under Chapter 11.

On February 14, 2001, Genesis received a waiver from its lenders (the "Genesis DIP Lenders") under the Genesis DIP Facility for any event of default regarding certain financial covenants relating to minimum EBITDA that may have resulted from asset impairment and other non-recurring charges recorded by Genesis in the fourth quarter of Fiscal 2000. The waiver extends through December 31, 2000. In addition, Genesis received certain amendments to the Genesis DIP Facility, including an amendment that makes the minimum EBITDA covenant less restrictive in future periods (the "Genesis EBITDA Amendment"). The Genesis EBITDA Amendment can be terminated by the Genesis DIP Lenders if on or before April 2, 2001, the Bankruptcy Court has not approved payment by Genesis to the Genesis DIP Lenders of an amendment fee related thereto. There can be no assurances that Bankruptcy Court approval for the amendment fee will be granted, and as a result, there can be no assurances that the Genesis DIP Lenders will not exercise their rights under the Genesis DIP Facility in an event of default, including but not limited to, precluding future borrowings under the Genesis DIP Facility.

Multicare Debtor-in-Possession Financing

Among the orders entered by the Bankruptcy Court on June 23, 2000 were orders approving on an interim basis, a) the use of cash collateral by Multicare and those of its affiliates which had filed petitions for reorganization under Chapter 11 of the Bankruptcy Code and b) authorization for Multicare to enter into a secured debtor-in-possession revolving credit facility with a group of banks led by Mellon Bank, N. A., (the "Multicare DIP Facility") and authorizing advances in the interim period of up to $30,000,000 out of a possible $50,000,000. On July 18, 2000, the Bankruptcy Court entered the Final Order approving the $50,000,000 Multicare DIP Facility and permitting full usage

13

thereunder. Usage under the Multicare DIP Facility is subject to a Borrowing Base which provides for maximum borrowings (subject to the $50,000,000 commitment limit) by Multicare of up to 90% of outstanding eligible accounts receivable, as defined, and a real estate component. The Multicare DIP Facility matures on December 21, 2001 and advances thereunder accrue interest at either Prime plus 2.25% or the LIBO Rate plus 3.75%. Proceeds of the Multicare DIP Facility are available for general working capital purposes. As of December 31, 2000, there has been no usage under the Multicare DIP Facility. The Multicare DIP Facility provides for the issuance of up to $20,000,000 in standby letters of credit. As of December 31, 2000, there were $2,383,000 in letters of credit issued thereunder.

Pursuant to the agreement, Multicare and each of its affiliates named as borrowers or guarantors under the Multicare DIP Facility have granted to the lenders first priority liens and security interests (subject to valid, perfected, enforceable and nonavoidable liens of record existing immediately prior to the petition date and other carve-outs and exceptions as fully described in the Multicare DIP Facility) in all unencumbered pre- and post-petition property of Multicare. The Multicare DIP Facility also has priority over the liens on all collateral pledged under the prepetition Multicare Credit Facility (later defined) dated as of October 9, 1997 as amended, which collateral includes, but is not limited to, all personal property, including bank accounts and investment property, accounts receivable, inventory, equipment, and general intangibles, substantially all fee owned real property, and the capital stock of Multicare and its borrower and guarantor affiliates.

The Multicare DIP financing agreement limits, among other things, Multicare's ability to incur additional indebtedness or contingent obligations, to permit additional liens, to make additional acquisitions, to sell or dispose of assets, to create or incur liens on assets, to pay dividends and to merge or consolidate with any other person. The Multicare DIP Facility contains customary representations, warranties and covenants, including certain financial covenants relating to minimum EBITDA, occupancy and Multicare DIP Facility usage amounts and maximum capital expenditures. The breach of any such provisions, to the extent not waived or cured within any applicable grace or cure periods, could result in Multicare's inability to obtain further advances under the Multicare DIP Facility and the potential exercise of remedies by the Multicare DIP Facility lenders (without regard to the automatic stay unless reimposed by the Bankruptcy Court) which could materially impair the ability of Multicare to successfully reorganize under Chapter 11.

On February 14, 2001, Multicare received a waiver from its lenders (the "Multicare DIP Lenders") under the Multicare DIP Facility for any event of default regarding certain financial covenants relating to minimum EBITDA that may have resulted from asset impairment and other non-recurring charges recorded in the fourth quarter of Fiscal 2000. The waiver extends through December 31, 2000. In addition, Multicare received certain amendments to the Multicare DIP Facility, including an amendment that makes the minimum EBITDA covenant less restrictive in future periods (the "Multicare EBITDA Amendment"). The Multicare EBITDA Amendment can be terminated by the Multicare DIP Lenders if on or before April 2, 2001, the Bankruptcy Court has not approved payment by Multicare to the Multicare Lenders of an amendment fee related thereto. There can be no assurances that Bankruptcy Court approval for the amendment fee will be granted, and as a result, there can be no assurances that the Multicare DIP Lenders will not exercise their rights under the Multicare DIP Facility in an event of default, including but not limited to, precluding future borrowings under the Multicare DIP Facility.

Genesis Credit Facility

Genesis and certain of its subsidiaries (excluding Multicare) are borrowers under a prepetition credit facility totaling $1,250,000,000 (the "Genesis Credit Facility"). As of December 31, 2000, $1,059,787,000 was outstanding under the Genesis Credit Facility, which is classified as a liability subject to compromise.

Subject to liens granted under the Genesis DIP Facility, the Genesis Credit Facility (as amended) is secured by a first priority security interest in all of the stock, partnership interests and other equity of all of Genesis' present and future subsidiaries (including Genesis ElderCare Corp.) other than the stock of Multicare and its subsidiaries, and also by first priority security interests in substantially all personal property, excluding inventory, including accounts receivable, equipment and general intangibles. Mortgages on substantially all of Genesis' subsidiaries' real property were also granted.

Genesis is in default under the Genesis Credit Facility. Interest under the Genesis Credit Facility incurred prior to and subsequent to the Petition Date has been paid, or is accrued and paid when due.

Multicare Credit Facility

Multicare and certain of its subsidiaries are borrowers under a prepetition credit facility totaling $525,000,000 (the "Multicare Credit Facility"). As of December 31, 2000, $424,110,000 was outstanding under the Multicare Credit Facility, which is classified as a liability subject to compromise.

Subject to liens granted under the Multicare DIP Facility, The Multicare Credit Facility (as amended) is secured by first priority security interests (subject to certain exceptions) in all personal property, including inventory, accounts receivable, equipment and general intangibles. Mortgages on certain of Multicare's subsidiaries' real property were also granted.

Multicare is in default under the Multicare Credit Facility and has not made any scheduled interest payments since March 29, 2000.

Mortgage and Other Secured Debt

At December 31, 2000, the Company has $158,522,000 of mortgage and other secured debt consisting principally of secured revenue bonds and secured bank loans, including loans insured by the Department of Housing and Urban Development. With exception to $10,359,000, the aggregate balance of mortgage and other secured debt is classified as liabilities subject to compromise.

Unsecured Debt

Senior Subordinated Notes

At December 31, 2000, the following senior subordinated notes, net of discounts, were outstanding (in thousands):

Issuer	Maturity Date	Rate	Outstand
Genesis	2009	9.88%	
Genesis	2006	9.25%	
Genesis	2005	9.75%	
Genesis	Matured and untendered	9.38%	
Multicare	2007	9.00%	

Genesis and Multicare are in default of the indenture agreements of the above referenced senior subordinated notes. The outstanding balances of the senior subordinated notes are classified as liabilities subject to compromise.

Notes Payable and Other Unsecured Debt

Notes payable and other unsecured debt principally consists of seller notes due to the previous owners of small businesses acquired.

5. Multicare Transaction and its Restructuring

In October 1997, Genesis, The Cypress Group (together with its affiliates, "Cypress"), TPG Partners II, L.P., (together with its affiliates, "TPG") and Nazem, Inc. ("Nazem") acquired all of the issued and outstanding common stock of Genesis ElderCare Corp., a Delaware corporation. Cypress, TPG and Nazem purchased 210,000, 199,500 and 10,500 shares of Genesis ElderCare Corp. common stock, respectively, representing in the aggregate approximately 56.4% of the issued and outstanding common stock of Genesis ElderCare Corp., for an aggregate purchase price of $420,000,000. Genesis purchased 325,000 shares of Genesis ElderCare Corp. common stock, representing approximately 43.6% of the issued and outstanding common stock of Genesis ElderCare Corp., for an aggregate purchase price of $325,000,000. Cypress, TPG and Nazem are sometimes collectively referred to herein as the "Sponsors."

In October 1997, as a result of a tender offer and a merger transaction, Genesis ElderCare Corp. acquired 100% of the outstanding shares of common stock of The Multicare Companies, Inc. ("Multicare"), making Multicare a wholly-owned subsidiary of Genesis ElderCare Corp. In connection with their investments in the common stock of Genesis ElderCare Corp., Genesis, Cypress, TPG and Nazem entered into a stockholders agreement dated October 9, 1997 (the "Multicare Stockholders Agreement"), and Genesis, Cypress, TPG and Nazem entered into a put/call agreement, dated as of October 9, 1997 (the "Put/Call Agreement") relating to their respective ownership interests in Genesis ElderCare Corp. pursuant to which, among other things, Genesis had the option to purchase (the "Call") Genesis ElderCare Corp. common stock held by Cypress, TPG and Nazem at a price determined pursuant to the terms of the Put/Call Agreement. Cypress, TPG and Nazem had the option to sell (the "Put") such Genesis ElderCare Corp. common stock at a price determined pursuant to the Put/Call Agreement.

On October 8, 1999, Genesis entered into a restructuring agreement with Cypress, TPG and Nazem (the "Restructuring Agreement") to restructure their joint investment in Genesis ElderCare Corp., the parent company of Multicare.

Pursuant to the Restructuring Agreement, the Put under the Put/Call Agreement was terminated in exchange for:

- 24,369 shares of Genesis' Series H Senior Convertible Participating Cumulative Preferred Stock (the "Series H Preferred"), which were issued to Cypress, TPG and Nazem, or their affiliated investment funds, in proportion to their respective investments in Genesis ElderCare Corp.; and

- 17,631 shares of Genesis' Series I Senior Convertible Exchangeable Participating Cumulative Preferred Stock, (the "Series I Preferred") which were issued to Cypress, TPG and Nazem, or their affiliated investment funds, in proportion to their respective investments in Genesis ElderCare Corp.

Cypress and TPG invested in the aggregate, directly or through affiliated investment funds, $50,000,000 into Genesis in exchange for 12,500,000 shares of Genesis Common Stock and a ten year warrant to purchase 2,000,000 shares of Genesis Common Stock at an exercise price of $5.00 per share.

In connection with the restructuring transaction, Genesis recorded a non-cash charge of approximately $420,000,000 during the quarter ended December 31, 1999, representing the estimated cost to terminate the Put in consideration for the issuance of the Series H Preferred and Series I Preferred. The cost to terminate the Put was estimated based upon the Company's assessment that no incremental value was realized by Genesis as a result of the changes in the equity ownership structure of Multicare brought about by the restructuring of the Multicare joint venture.

16

7. Loss Per Share

The following table sets forth the computation of basic and diluted loss attributed to common shares (in thousands, except per share data):

	Three Months Ended December 31, 2000	Thr Mon End Decemb 19
Basic and Diluted Loss Per Share:		
Loss before cumulative effect of accounting change	$ (32,811)	$ (43
Cumulative effect of accounting change	-	(1
Net loss attributed to common shareholders	$ (32,811)	$ (45

Weighted average shares	48,641	4
Loss per share before cumulative effect of accounting change	$ (0.67)	$ (
Cumulative effect of accounting change	-	
Loss per share	$ (0.67)	$ (

For the three months ended December 31, 2000 and 1999, no exercise of stock options is assumed since their effect is antidilutive.

8. Comprehensive Loss

The following table sets forth the computation of comprehensive loss (in thousands):

	Three Months Ended December 31, 2000	Thr Mon End Decemb 19
Loss attributed to common shareholders	$ (32,811)	$ (45
Unrealized gain (loss) on marketable securities	687	
Total comprehensive loss	$ (32,124)	$ (45

Accumulated other comprehensive loss, which is composed of net unrealized gains and losses on marketable securities, was ($1,102,000) and ($1,789,000) at December 31, 2000 and September 30, 2000, respectively.

9. Cumulative Effect of Accounting Change

Effective October 1, 1999, the Company adopted the provisions of the AICPA's Statement of Position 98-5, "Reporting on the Costs of Start-up Activities", ("SOP 98-5") which requires the costs of start-up activities be expensed as incurred, rather than capitalized and subsequently amortized. The adoption of SOP 98-5 resulted in the write-off of $10,412,000, net of tax, of unamortized start-up costs and is reflected as a cumulative effect of accounting change in the unaudited condensed consolidated statements of operations for the three months ended December 31, 1999.

10. Segment Information

The Company's principal operating segments are identified by the types of products and services from which revenues are derived and are consistent with the reporting structure of the Company's internal organization.

The Company has two reportable segments: (1) Pharmacy and medical supplies services and (2) Inpatient services.

The Company provides pharmacy and medical supply services through its NeighborCare(R) pharmacy subsidiaries. Included in pharmacy and medical supply service revenues are institutional pharmacy revenues, which include the provision of infusion therapy, medical supplies and equipment provided to eldercare centers it operates, as well as to independent healthcare providers by contract. The Company provides these services through 61 institutional pharmacies (three are jointly-owned) and 23 medical supply and home medical equipment distribution centers (four are jointly-owned) located in its various market areas. In addition, the Company operates 32 community-based pharmacies (two are jointly-owned) which are located in or near medical centers, hospitals and physician office complexes. The community-based pharmacies provide prescription and over-the-counter medications and certain medical supplies, as well as personal service and consultation by licensed professional pharmacists. Approximately 91% of the sales attributable to all pharmacy operations in Fiscal 2000 were generated through external contracts with independent healthcare providers with the balance attributable to centers owned or leased by the Company, including the jointly owned Multicare centers.

The Company includes in inpatient service revenue all room and board charges and ancillary service revenue for its eldercare customers at its 198 owned and leased eldercare centers, including the jointly-owned Multicare centers. The centers offer three levels of care for their customers: skilled, intermediate and personal.

The accounting policies of the segments are the same as those of the consolidated company. All intersegment sales prices are market based. The Company evaluates performance of its operating segments based on income before interest, income taxes, depreciation, amortization, rent and nonrecurring items.

Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column represents operating information of business units below the prescribed quantitative thresholds. These business units derive revenues from the following services: rehabilitation therapy, management services, consulting services, homecare services, physician services, transportation services, diagnostic services, hospitality services, respiratory health services, group purchasing fees and other healthcare related services. In addition, the "Other" column includes the elimination of intersegment transactions.

(in thousands) Three months ended	Pharmacy and Medical Supply Services	Inpatient Services	Other	
December 31, 2000				
Revenue from external customers	$ 255,574	$ 333,699	$ 39,746	$
Revenue from intersegment customers	22,170	-	47,015	

Operating income (1)	23,206	35,236	1,576	
Total assets	1,057,982	1,756,407	312,302	
December 31, 1999				
Revenue from external customers	$ 223,907	$ 326,327	$ 36,650	$
Revenue from intersegment customers	26,321	-	40,299	
Operating income (1)	25,860	39,208	8,402	
Total assets	1,090,280	1,811,692	644,378	

(1) Operating income is defined as income before interest, income taxes, depreciation, amortization, rent and nonrecurring items. The Company's segment information does not include an allocation of overhead costs, which are between 3% - 4% of consolidated net revenues.

11. Restricted Assets

The Company's cash balance at December 31, 2000 was approximately $19,900,000 of which approximately $19,100,000 is held by Multicare. As a result of certain restrictions placed on Multicare and Genesis by their respective senior credit agreements and the automatic stay provisions imposed by the Bankruptcy Court, Genesis and Multicare are precluded from freely transferring funds through intercompany loans, advances or cash dividends. Consequently, the $19,100,000 of cash and other assets held by Multicare at December 31, 2000 is not available to Genesis.

At December 31, 2000, the Company reported restricted investments in marketable securities of $31,697,000 which are held by Liberty Health Corp. LTD. ("LHC"), Genesis' wholly-owned captive insurance subsidiary incorporated under the laws of Bermuda. The investments held by LHC are restricted by statutory capital requirements in Bermuda. In addition, certain of these investments are pledged as security for letters of credit issued by LHC. As a result of such restrictions and encumbrances, Genesis and LHC are precluded from freely transferring funds through intercompany loans, advances or cash dividends. LHC is not a party to the Chapter 11 cases.

12. Subsequent Event

Effective January 31, 2001, we restructured our relationship with ElderTrust, a Maryland healthcare real estate investment trust. The related agreements encompass, among other things, the resolution of leases and mortgages for 33 properties operated by Genesis and Multicare either directly or through joint ventures. Under its agreement, Genesis assumed the ElderTrust leases subject to certain modifications, including a reduction in Genesis' annual lease expense of $745,000 extended the maturity and reduced the principal balances of loans for three assisted living properties by $8,500,000 by satisfaction of an ElderTrust obligation of like amount; and acquired a building previously leased from ElderTrust, which is located on the campus of a Genesis skilled nursing facility, for $1,250,000. In its agreement with ElderTrust, Multicare sold three owned assisted living properties that were mortgaged to ElderTrust for principal amounts totaling $19,500,000 in exchange for the outstanding indebtedness. ElderTrust leases the properties back to Multicare under a new ten-year lease with annual rents of $792,000. These transactions will be recorded in the Company's second fiscal quarter ending March 31, 2001.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Since we began operations in July 1985, we have focused our efforts on providing an expanding array of specialty medical services to elderly customers. We generate revenues primarily from two sources: pharmacy and medical supply services, and inpatient services; however, we also derive revenue from other sources.

We include in inpatient services revenue all room and board charges and ancillary service revenue for our eldercare customers at our 198 owned, leased and Multicare jointly-owned eldercare centers.

We provide pharmacy and medical supply services through our NeighborCare(R) pharmacy subsidiaries. Included in pharmacy and medical supply service revenues are institutional pharmacy revenues, which include the provision of infusion therapy, medical supplies and equipment provided to eldercare centers operated by Genesis, as well as to independent healthcare providers by contract. We provide these services through 61 institutional pharmacies (three are jointly-owned) and 23 medical supply and home medical equipment distribution centers (four are jointly-owned) located in our various market areas. In addition, we operate 32 community-based pharmacies (two are jointly-owned) which are located in or near medical centers, hospitals and physician office complexes. The community-based pharmacies provide prescription and over-the-counter medications and certain medical supplies, as well as personal service and consultation by licensed professional pharmacists.

We include the following service revenue in other revenues: rehabilitation therapy services, management fees, consulting services, homecare services, physician services, transportation services, diagnostic services, hospitality services, group purchasing fees, respiratory health services and other healthcare related services.

Certain Transactions and Events

Liquidity and Going Concern Assumption

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern with the realization of assets and the settlement of liabilities and commitments in the normal course of business. However, as a result of the Bankruptcy cases and circumstances relating to this event, including the Company's leveraged financial structure, losses from operations and defaults under various loan agreements, such realization of assets and liquidation of liabilities is subject to significant uncertainty. While under the protection of Chapter 11, the Company may sell or otherwise dispose of assets, and liquidate or settle liabilities, for amounts other than those reflected in the financial statements. Further, a plan of reorganization could materially change the amounts reported in the financial statements, which do not give effect to all adjustments of the carrying value of assets or liabilities that might be necessary as a consequence of a plan of reorganization. The Company's ability to continue as a going concern is dependent upon, among other things, confirmation of a plan of reorganization, future profitable operations, the ability to comply with the terms of the Company's debtor-in-possession financing agreements and the ability to generate sufficient cash flow.

Our financial difficulties are attributed to a number of factors. First, the federal government has made fundamental changes to the reimbursement for medical services provided to individuals. The changes have had a significant adverse impact on the healthcare industry as a whole and on our cash flows. Second, the federal reimbursement changes have exacerbated a long-standing problem of less than fair reimbursement by the states for medical services provided to indigent persons under the various state Medicaid programs. Third, numerous other factors have adversely affected our cash flows, including increased labor costs, increased professional liability and other insurance costs, and increased interest rates. Finally, as a result of declining governmental reimbursement rates and in the face of rising inflationary costs, we were too highly leveraged to service our debt, including our long-term lease obligations.

Multicare Transaction and its Restructuring

In October 1997, Genesis, The Cypress Group (together with its affiliates, "Cypress"), TPG Partners II, L.P., (together with its affiliates, "TPG") and Nazem, Inc. ("Nazem") acquired all of the issued and outstanding common stock of Genesis ElderCare Corp., a Delaware corporation. Cypress, TPG and Nazem purchased 210,000, 199,500 and 10,500 shares of Genesis ElderCare Corp. common stock, respectively, representing in the aggregate approximately 56.4% of the issued and outstanding common stock of Genesis ElderCare Corp., for an aggregate purchase price of $420,000,000. Genesis purchased 325,000 shares of Genesis ElderCare Corp. common stock, representing approximately 43.6% of the issued and outstanding common stock of Genesis ElderCare Corp., for an aggregate purchase price of $325,000,000. Cypress, TPG and Nazem are sometimes collectively referred to herein as the "Sponsors".

In October 1997, as a result of a tender offer and a merger transaction, Genesis ElderCare Corp. acquired 100% of the outstanding shares of common stock of Multicare, making Multicare a wholly-owned subsidiary of Genesis ElderCare Corp. (the "Merger"). In connection with their investments in the common stock of Genesis ElderCare Corp., Genesis, Cypress, TPG and Nazem entered into a stockholders agreement dated as of October 9, 1997 (the "Multicare Stockholders Agreement"), and Genesis, Cypress, TPG and Nazem entered into a put/call agreement, dated as of October 9, 1997 (the "Put/Call Agreement") relating to their respective ownership interests in Genesis ElderCare Corp. pursuant to which, among other things, Genesis had the option to purchase (the "Call") Genesis ElderCare Corp. common stock held by Cypress, TPG and Nazem at a price determined pursuant to the terms of the Put/Call Agreement. Cypress, TPG and Nazem had the option to sell (the "Put") such Genesis ElderCare Corp. common stock at a price determined pursuant to the Put/Call Agreement.

On October 8, 1999, Genesis entered into a restructuring agreement with Cypress, TPG and Nazem (the "Restructuring Agreement") to restructure their joint investment in Genesis ElderCare Corp., the parent company of Multicare.

Pursuant to the Restructuring Agreement, the Put under the Put/Call Agreement was terminated in exchange for:

- 24,369 shares of Genesis' Series H Senior Convertible Participating Cumulative Preferred Stock (the "Series H Preferred"), which were issued to Cypress, TPG and Nazem, or their affiliated investment funds, in proportion to their respective investments in Genesis ElderCare Corp.; and

- 17,631 shares of Genesis' Series I Senior Convertible Exchangeable Participating Cumulative Preferred Stock, (the "Series I Preferred") which were issued to Cypress, TPG and Nazem, or their affiliated investment funds, in proportion to their respective investments in Genesis ElderCare Corp.

Cypress and TPG invested in the aggregate, directly or through affiliated investment funds, $50,000,000 into Genesis in exchange for 12,500,000 shares of Genesis Common Stock and a ten year warrant to purchase 2,000,000 shares of

Genesis Common Stock at an exercise price of $5.00 per share.

ElderTrust Transactions

Effective January 31, 2001, we restructured our relationship with ElderTrust, a Maryland healthcare real estate investment trust. The related agreements encompass, among other things, the resolution of leases and mortgages for 33 properties operated by Genesis and Multicare either directly or through joint ventures. Under its agreement, Genesis assumed the ElderTrust leases subject to certain modifications, including a reduction in Genesis' annual lease expense of $745,000; extended the maturity and reduced the principal balances of loans for three assisted living properties by $8,500,000 by satisfaction of an ElderTrust obligation of like amount; and acquired a building previously leased from ElderTrust, which is located on the campus of a Genesis skilled nursing facility, for $1,250,000. In its agreement with ElderTrust, Multicare sold three owned assisted living properties that were mortgaged to ElderTrust for principal amounts totaling $19,500,000 in exchange for the outstanding indebtedness. ElderTrust leases the properties back to Multicare under a new ten-year lease with annual rents of $792,000. These transactions will be recorded in the Company's second fiscal quarter ending March 31, 2001.

21

Sale of Ohio Operations

In the third fiscal quarter of 2000, effective May 31, 2000, Multicare sold 14 eldercare centers with 1,128 beds located in the state of Ohio for approximately $33,000,000. The Company recorded a loss on sale of the Ohio properties of approximately $7,922,000.

Results of Operations

Three months ended December 31, 2000 compared to three months ended December 31, 1999

The Company's total net revenues for the quarter ended December 31, 2000 were $629,019,000 compared to $586,884,000 for the quarter ended December 31, 1999, an increase of $42,135,000, or 7%.

Inpatient service revenue increased $7,372,000, or 2%, to $333,699,000 from $326,327,000. Of this increase, approximately $3,100,000 is attributed to the consolidation of two eldercare centers previously under joint ownership that became wholly-owned effective July 1, 2000 (the "P&R Transaction") and approximately $24,000,000 is principally attributed to increased payment rates and higher Medicare, private pay and insurance patient days ("Quality Mix") as a percentage of total patient days. The Company's average rate per patient day for the quarter ended December 31, 2000 was $161 compared to $148 for the comparable period in the prior year. This increase in the average rate per patient day is principally driven by the effect of the BBRA on our average Medicare rate per patient day, which increased to $316 for the quarter ended December 31, 2000 compared to $289 for the comparable period in the prior year. The Company's revenue Quality Mix for the quarter ended December 31, 2000 was 50.1% compared to 48.6% for the comparable period in the prior year. These rate and mix increases are offset by a decrease in revenue of approximately $19,700,000 resulting from the sale, closure or lease terminations of certain eldercare centers. Total patient days decreased 133,431 to 2,077,408 during the quarter ended December 31, 2000 compared to 2,210,839 during the comparable period last year. Of this decrease, 149,499 patient days are attributed to the sale, closure or lease terminations of certain eldercare centers; offset by the consolidation of 20,825 patient days of two eldercare centers following the P&R Transaction and the remaining decrease of 4,757 patient days is the result of a decrease in overall occupancy.

Pharmacy and medical supply service revenue was $255,574,000 for the quarter ended December 31, 2000 compared to $223,907,000 for the quarter ended December 31, 1999. Pharmacy and medical supply service revenues increased approximately $31,667,000 due primarily to net revenue growth with external customers.

Other revenues increased approximately $3,096,000 from $36,650,000 to $39,746,000. Approximately $4,100,000 of this increase is attributed to the revenues of a respiratory health services business acquired in the third fiscal quarter of 2000, offset by a decline in revenue of approximately $1,400,000 resulting from the termination of certain management contracts with AGE Institute. The remaining increase of approximately $400,000 is attributed to net growth in revenues of other service businesses.

The Company's operating expenses before depreciation, amortization, lease expense, interest expense and certain charges, more fully described in paragraphs that follow, increased $55,587,000, or 11%, to $569,001,000 for the quarter ended December 31, 2000 from $513,414,000 for the comparable period in the prior year. This net increase is attributed to approximately $3,800,000 from the consolidation of a respiratory health services business acquired in the third fiscal quarter of 2000, approximately $2,800,000 is attributed to the consolidation of the operating expenses of two eldercare centers following the P&R Transaction, approximately $6,400,000 is attributed to increases in the cost of certain self-insured employee health coverage, and is offset by $17,900,000 of operating cost savings resulting from the sale, closure or lease terminations of certain eldercare centers. The remaining increase in operating expenses of approximately $60,487,000 is attributed to growth in labor related costs, cost of sales, property and liability insurance related costs and general inflationary cost increases.

22

The acceleration in the operating cost growth rate (approximately 11.8%) over the revenue growth rate (approximately 9.6%) is attributed to continued pressure on wage and benefit related costs in all of our operating businesses. The Company and the industry continue to experience significant shortages in qualified professional clinical staff. As the demand for these services continually exceeds the supply of available and qualified staff, the Company and our competitors have been forced to offer more attractive wage and benefit packages to these professionals and to utilize outside contractors for these services at premium rates. Furthermore, the competitive arena for this shrinking labor market has created high turnover among clinical professional staff as many seek to take advantage of the supply of available positions, many offering new and more attractive wage and benefit packages. In addition to the wage pressures inherent in this environment, the cost of training new employees amid the high turnover rates has caused added pressure on our operating margins. In addition to labor pressures, the Company and industry continue to experience an adverse effect on operating profits due to an increase in the cost of certain of its insurance programs. Rising costs of eldercare malpractice litigation involving nursing care operators and losses stemming from these malpractice lawsuits has caused many insurance providers to raise the cost of insurance premiums or refuse to write insurance policies for nursing homes. Accordingly, the costs of general and professional liability and property insurance premiums have increased. Also, the impact of government regulation in a heavily regulated environment has adversely impacted our ability to reduce costs. The pressures on operating expenses described above are coupled with the effects of the federal and state governments' and other third party payors' trend toward imposing lower reimbursement rates, resulting in our inability to grow revenues at a rate that equals or exceeds the growth in our cost levels. The downward trend of reimbursement rates to nursing care operators and the cost pressures previously described have adversely impacted customers of our ancillary service businesses, resulting in pricing pressures in those businesses.

During the three months ended December 31, 2000 and 1999, the Company recorded charges in connection with the Multicare joint venture restructuring; debt restructuring and reorganization costs; and a gain on the sale of an eldercare center. The following table and discussion provides additional information on these charges.

	2000	1999
Multicare joint-venture restructuring	$ -	$ 420,00
Professional, bank and other fees in connection with the Company's Chapter 11 reorganization	$ 10,098,938	$
Employee benefit related costs	4,109,999	
Stock option redemption program	-	7,72
Total debt restructuring, reorganization costs and other charges	$ 14,208,937	$ 7,72
Gain on sale of an eldercare center	$ (1,770,141)	$

Multicare joint-venture restructuring

In connection with the restructuring transaction in the three months ended December 31, 1999, Genesis recorded a non-cash charge of approximately $420,000,000 representing the estimated cost to terminate the Put in consideration for the issuance of the Series H Preferred and Series I Preferred. The cost to terminate the Put was estimated based upon our assessment that no incremental value was realized by Genesis as a result of the changes in the equity ownership structure of Multicare brought about by the restructuring of the Multicare joint venture.

23

Debt Restructuring, Reorganization Costs and Other Charges

During the three months ended December 31, 2000, we incurred legal, bank, accounting and other costs of approximately $10,100,000 in connection with the Chapter 11 cases. In addition, we incurred costs of $4,100,000 for certain salary and benefit related costs, principally for a court approved special recognition program. The Company expects that such debt restructuring and reorganization costs will continue at current, and perhaps accelerated, levels throughout the course of our Chapter 11 cases.

During the three months ended December 31, 1999, the Company recorded a non-cash pre tax charge of $7,720,000 for a stock option redemption program (the "Redemption Program") under which current Genesis employees and directors elected to surrender certain Genesis stock options for unrestricted shares of Genesis Common Stock. The Redemption Plan was approved by shareholder vote at the Company's 2000 Annual Meeting. As a result of the Company's worsening financial condition and other considerations, the Company determined not to proceed with the Redemption Program, and therefore the $7,720,000 charge recorded in the first quarter of fiscal 2000 was subsequently reversed. The elections made by optionees would have resulted in the redemption of approximately 4,600,000 stock options in exchange for approximately 4,000,000 shares of Genesis Common Stock.

Gain on Sale

In October of 2000, the Company sold an idle 232 bed eldercare center for cash consideration of approximately $7,000,000. The sale resulted in a net gain of approximately $1,800,000.

Depreciation and amortization expense decreased $2,192,000, principally attributed to the fourth quarter of fiscal 2000 write-off of impaired goodwill and property, plant and equipment and the sale, closure or lease terminations of certain eldercare centers.

Lease expense decreased $122,000, of which approximately $678,000 is attributed to the sale, closure or lease terminations of certain eldercare centers, offset by an increase of approximately $304,000 attributed to the lease expense of two eldercare centers following the P&R Transaction. The remaining increase of approximately $500,000 is attributed to growth in the cost of a variable rate lease financing facility and scheduled increases in fixed lease rates.

Interest expense decreased $18,622,000. In accordance with SOP 90-7, the Company ceased accruing interest following the Petition Date on certain long-term debt instruments classified as liabilities subject to compromise. The Company's contractual interest expense for the three months ended December 31, 2000 was $61,752,000, leaving $27,598,000 of interest expense unaccrued for the three months ended December 31, 2000 as a result of the Chapter 11 filings. The relative increase in contractual interest expense of $8,976,000 for the three months ended December 31, 2000 compared to the same period in the prior year is the result of additional net capital and working capital borrowings and an increase in the Company's weighted average borrowing rate prompted by increases in market rates of interest and higher interest rate spreads charged by the Company's lenders in connection with the Company's worsening financial condition and the Chapter 11 cases.

As a result of the Company's Chapter 11 filings and uncertainties regarding its ability to generate sufficient taxable income to utilize future net operating loss carryforwards, the Company recorded a valuation allowance on all incremental net operating loss carryforward benefits during the three months ended December 31, 2000 and consequently, did not report an income tax benefit for the three months ended December 31, 2000. The Company reported a $7,280,000 tax benefit for the three months ended December 31, 1999.

Equity in net loss of unconsolidated affiliates for the three months ended December 31, 2000 was $216,000 compared to $606,000 for the comparable period in the prior year, which is attributed to changes in the earnings / losses reported by the Company's unconsolidated affiliates.

24

Minority interest decreased $5,722,000 during the three months ended December 31, 2000 to $1,811,000 compared to $7,533,000 for the comparable period in the prior year. This decrease is principally attributed to a lower net loss reported by Multicare and the resulting Genesis' Multicare joint venture partners' 56.4% interest in the Multicare net loss for the period. The Multicare net loss was reduced during the three months ended December 31, 2000 compared to the comparable period in the prior year, principally due to lower interest expense recognition under SOP 90-7.

Effective October 1, 1999, Genesis adopted the provisions of the American Institute of Certified Public Accountant's Statement of Position 98-5 "Reporting on the Costs of Start-Up Activities" (SOP 98-5) which requires start-up costs be expensed as incurred. For the three months ended December 31, 1999, the cumulative effect of expensing all unamortized start-up costs at October 1, 1999 was $16,400,000 pre tax and $10,400,000 after tax.

Preferred stock dividends increased $3,194,000 to $11,500,000 during the three months ended December 31, 2000 compared to $8,306,000 for the comparable period in the prior year. This increase is attributed to a full three months of accrued dividends for the three months ended December 31, 2000, in connection with the issuance of Series H and Series I Preferred Stock in mid-November, 1999, compared to a partial period for the three months ended December 31, 1999.

Liquidity and Capital Resources

Chapter 11 Bankruptcy and Debtor-In-Possession Financing

On June 22, 2000 (the "Petition Date"), the Company and substantially all of its subsidiaries and affiliates, filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware under the Bankruptcy Code. While this action constituted a default under the Company's and such subsidiaries and affiliates various financing arrangements, Section 362(a) of the Bankruptcy Code imposes an automatic stay that generally precludes creditors and other interested parties under such arrangements from taking any remedial action in response to any such resulting default without prior Bankruptcy Court approval. Among the orders entered by the Bankruptcy Court on June 23, 2000 were orders approving on an interim basis, a) the use of cash collateral by the Company and those of its subsidiaries and affiliates which had filed petitions for reorganization under Chapter 11 of the Bankruptcy Code and (excluding Multicare and its direct and indirect subsidiaries), b) authorization for Genesis to enter into a secured debtor-in-possession revolving credit facility with a group of banks led by Mellon Bank, N. A., (the "Genesis DIP Facility") and authorizing advances in the interim period of up to $150,000,000 out of a possible $250,000,000 facility. On July 18, 2000, the Bankruptcy Court entered the Final Order approving the $250,000,000 Genesis DIP Facility and permitting full usage thereunder. Usage under the Genesis DIP Facility is subject to a Borrowing Base which provides for maximum borrowings (subject to the $250,000,000 commitment limit) by the Company equal to the sum of (i) up to 90% of outstanding eligible accounts receivable, as defined and (ii) up to $175,000,000 against real property. The Genesis DIP Facility, which is classified as a current liability, matures on December 21, 2001 and advances thereunder accrue interest at either Prime plus 2.25% or the Eurodollar ("LIBO") Rate plus 3.75%. Proceeds of the Genesis DIP Facility are available for general working capital purposes and as a condition of the loan, were required to refinance the $40,000,000 outstanding under the Company's prepetition priority Tranche II sub-facility. Additionally, $44,000,000 of proceeds were used to satisfy all unpaid interest and rent obligations to the senior secured creditors under the Fourth Amended and Restated Credit Agreement dated August 20, 1999 and the Synthetic Lease dated October 7, 1996 as adequate protection for any diminution in value of the prepetition senior secured lenders in these facilities, respectively. The Company will continue to pay interest and rent pursuant to these agreements as adequate protection. Interest is accrued and paid at the Prime Rate as announced by the administrative agent, or the applicable Adjusted LIBO Rate plus, in either event, a margin that is dependent upon a certain financial ratio test. As of December 31, 2000 borrowings outstanding under the Genesis DIP Facility were $154,500,000. As of March 13, 2001 borrowings outstanding under the Genesis DIP Facility were $184,000,000. The Genesis DIP Facility provides for the issuance of up to $25,000,000 in standby letters of credit. As of March 13, 2001 there were $3,300,000 in letters of credit issued thereunder for a total utilization under the Genesis DIP Facility of $187,300,000.

Pursuant to the agreement, the Company and each of its subsidiaries named as borrowers or guarantors under the Genesis DIP Facility have granted to the lenders first priority liens and security interests (subject to valid, perfected, enforceable and nonavoidable liens of record existing immediately prior to the petition date and other carve-outs and exceptions as fully described in the Genesis DIP Facility) in all unencumbered pre- and post-petition property of the Company. The Genesis DIP Facility also has priority over the liens on all collateral pledged under (i) the Genesis Credit Facility, (ii) the Synthetic Lease dated October 7, 1996 and (iii) other obligations covered by the Collateral Agency Agreement, including any Swap Agreement, which collateral includes, but is not limited to, all personal property, including bank accounts and investment property, accounts receivable, inventory, equipment, and general intangibles, substantially all fee owned real property, and the capital stock of Genesis and its borrower and guarantor subsidiaries.

The Genesis DIP financing agreement limits, among other things, the Company's ability to incur additional indebtedness or contingent obligations, to permit additional liens, to make additional acquisitions, to sell or dispose of assets, to create or incur liens on assets, to pay dividends and to merge or consolidate with any other person. The Genesis DIP Facility contains customary representations, warranties and covenants, including certain financial covenants relating to minimum EBITDA, occupancy and Genesis DIP Facility usage amounts and maximum capital expenditures. The breach of any such provisions, to the extent not waived or cured within any applicable grace or cure periods, could result in the Company's inability to obtain further advances under the Genesis DIP Facility and the potential exercise of remedies by the Genesis DIP Facility lenders (without regard to the automatic stay unless reimposed by the Bankruptcy Court) which could materially impair the ability of the Company to successfully reorganize under Chapter 11.

On February 14, 2001, Genesis received a waiver from its lenders (the "Genesis DIP Lenders") under the Genesis DIP Facility for any event of default regarding certain financial covenants relating to minimum EBITDA that may have resulted from asset impairment and other non-recurring charges recorded by Genesis in the fourth quarter of Fiscal 2000. The waiver extends through December 31, 2000. In addition, Genesis received certain amendments to the Genesis DIP Facility, including an amendment that makes the minimum EBITDA covenant less restrictive in future periods (the "Genesis EBITDA Amendment"). The Genesis EBITDA Amendment can be terminated by the Genesis DIP Lenders if on or before April 2, 2001, the Bankruptcy Court has not approved payment by Genesis to the Genesis DIP Lenders of an amendment fee related thereto. There can be no assurances that Bankruptcy Court approval for the amendment fee will be granted, and as a result, there can be no assurances that the Genesis DIP Lenders will not exercise their rights under the Genesis DIP Facility in an event of default, including but not limited to, precluding future borrowings under the Genesis DIP Facility.

Following the Petition Date, Genesis continues to pay interest on approximately $1,100,000 of certain prepetition senior long term debt obligations, which has, in part, resulted in Genesis' active borrowing under the Genesis DIP Facility. An event of default and any related borrowing restrictions placed under the Genesis DIP Facility could have a material adverse effect on the financial position of Genesis, resulting in factors, including, but not limited to, Genesis' inability to:

- continue funding prepetition senior long term debt interest obligations, which could be disruptive to ongoing reorganization negotiations;
- extend required letters of credit in the ordinary course of business;
- fund capital and working capital requirements; and
- successfully reorganize.

On June 22, 2000, Multicare and substantially all of its affiliates, filed voluntary petitions in the United States Bankruptcy Court for the District of

Delaware under the Bankruptcy Code. While this action constituted a default under Multicare's and such affiliates various financing arrangements, Section 362(a) of the Bankruptcy Code imposes an automatic stay that generally precludes creditors and other interested parties under such arrangements from taking any remedial action in response to any such resulting default without prior Bankruptcy Court approval. Among the orders entered by the Bankruptcy Court on June 23, 2000 were orders approving on an interim basis, a) the use of cash collateral by Multicare and those of its affiliates which had filed petitions for reorganization under Chapter 11 of the Bankruptcy Code and (b) authorization for Multicare to enter into a secured debtor-in-possession revolving credit

26

facility with a group of banks led by Mellon Bank, N. A., (the "Multicare DIP Facility") and authorizing advances in the interim period of up to $30,000,000 out of a possible $50,000,000. On July 18, 2000, the Bankruptcy Court entered the Final Order approving the $50,000,000 Multicare DIP Facility and permitting full usage thereunder. Usage under the Multicare DIP Facility is subject to a Borrowing Base which provides for maximum borrowings (subject to the $50,000,000 commitment limit) by Multicare of up to 90% of outstanding eligible accounts receivable, as defined, and a real estate component. The Multicare DIP Facility matures on December 21, 2001 and advances thereunder accrue interest at either Prime plus 2.25% or the LIBO Rate plus 3.75%. Proceeds of the Multicare DIP Facility are available for general working capital purposes. Through March 13, 2001, there has been no usage under the Multicare DIP Facility, other than for standby letters of credit. The Multicare DIP Facility provides for the issuance of up to $20,000,000 in standby letters of credit. As of March 13, 2001 there were $2,200,000 in letters of credit issued thereunder.

The obligations of Multicare under the Multicare DIP Facility are jointly and severally guaranteed by each of Multicare's filing affiliates. Pursuant to the agreement, Multicare and each of its affiliates named as borrowers or guarantors under the Multicare DIP Facility have granted to the lenders first priority liens and security interests (subject to valid, perfected, enforceable and nonavoidable liens of record existing immediately prior to the petition date and other carve-outs and exceptions as fully described in the Multicare DIP Facility) in all unencumbered pre- and post-petition property of Multicare. The Multicare DIP Facility also has priority over the liens on all collateral pledged under the Multicare Credit Facility, which collateral includes, but is not limited to, all personal property, including bank accounts and investment property, accounts receivable, inventory, equipment, and general intangibles, substantially all fee owned real property, and the capital stock of Multicare and its borrower and guarantor affiliates.

The Multicare DIP financing agreement limits, among other things, Multicare's ability to incur additional indebtedness or contingent obligations, to permit additional liens, to make additional acquisitions, to sell or dispose of assets, to create or incur liens on assets, to pay dividends and to merge or consolidate with any other person. The Multicare DIP Facility contains customary representations, warranties and covenants, including certain financial covenants relating to minimum EBITDA, occupancy and Multicare DIP Facility usage amounts and maximum capital expenditures. The breach of any such provisions, to the extent not waived or cured within any applicable grace or cure periods, could result in Multicare's inability to obtain further advances under the Multicare DIP Facility and the potential exercise of remedies by the Multicare DIP Facility lenders (without regard to the automatic stay unless reimposed by the Bankruptcy Court) which could materially impair the ability of Multicare to successfully reorganize under Chapter 11.

On February 14, 2001, Multicare received a waiver from its lenders (the "Multicare DIP Lenders") under the Multicare DIP Facility for any event of default regarding certain financial covenants relating to minimum EBITDA that may have resulted from asset impairment and other non-recurring charges recorded in the fourth quarter of Fiscal 2000. The waiver extends through December 31, 2000. In addition, Multicare received certain amendments to the Multicare DIP Facility, including an amendment that makes the minimum EBITDA covenant less restrictive in future periods (the "Multicare EBITDA Amendment"). The Multicare EBITDA Amendment can be terminated by the Multicare DIP Lenders if on or before April 2, 2001, the Bankruptcy Court has not approved payment by Multicare to the Multicare Lenders of an amendment fee related thereto. There can be no assurances that Bankruptcy Court approval for the amendment fee will be granted, and as a result, there can be no assurances that the Multicare DIP Lenders will not exercise their rights under the Multicare DIP Facility in an event of default, including but not limited to, precluding future borrowings under the Multicare DIP Facility.

Multicare discontinued paying interest on virtually all of its prepetition long term debt obligations following the Petition Date, which has, in part, resulted in Multicare's ability to fund capital and working capital needs through operations without borrowing under the Multicare DIP Facility. An event of default and any related borrowing restrictions placed under the Multicare DIP Facility could have a material adverse effect on the financial position of Multicare, and could result in factors including, but not limited to, Multicare's inability to:

- extend required letters of credit in the ordinary course of business;
- fund capital and working capital requirements; and
- successfully reorganize.

27

Under the Bankruptcy Code, actions to collect prepetition indebtedness are enjoined and other contractual obligations generally may not be enforced against the Company. In addition, the Company may reject executory contracts and lease obligations. Parties affected by these rejections may file claims with the Bankruptcy Court in accordance with the reorganization process. If the Company is able to successfully reorganize, substantially all unsecured liabilities as of the petition date would be subject to modification under a plan of reorganization to be voted upon by all impaired classes of creditors and equity security holders and approved by the Bankruptcy Court.

On June 23, 2000 the Bankruptcy Court entered an order authorizing the Debtors to pay certain prepetition wages, salaries, benefits and other employee obligations, as well as to continue in place the Debtors' various employee compensation programs and procedures. On that date, the Bankruptcy Court also authorized the Debtors to pay, among other claims, the prepetition claims of certain critical vendors and patients. All other unsecured prepetition liabilities are classified in the consolidated balance sheet as liabilities subject to compromise. The Debtors intend to remain in possession of their assets and continue in the management and operation of their properties and businesses, and to pay the post-petition claims of their various vendors and providers in the ordinary course of business.

A summary of the principal categories of claims classified as liabilities subject to compromise under the Chapter 11 cases as of December 31, 2000 and September 30, 2000 follows (in thousands):

	December 31, 2000	Sept 2

Liabilities subject to compromise:		
Revolving credit and term loans	$1,483,898	$
Senior subordinated notes	617,643	
Revenue bonds and other indebtedness	156,499	
Subtotal - long-term debt subject to compromise	$2,258,040	$
Accounts payable and accrued liabilities	63,918	
Accrued interest (including a $28,331 swap termination fee)	87,342	
Accrued preferred stock dividends on Series G Preferred Stock	39,892	
	$2,449,192	$

28

A summary of the principal categories of debt restructuring and reorganization costs follows (in thousands):

	For the Three Months Ended December 31, 2000
Debt restructuring and reorganization costs:	
Legal, accounting, bank and consulting fees	$ 10,099
Employee benefit related costs, including severance	4,110
	$ 14,209

General Operations

At December 31, 2000, the Company reported working capital of $296,960,000 as compared to working capital of $304,241,000 at September 30, 2000. Genesis' cash flow from operations for the three months ended December 31, 2000 was a use of cash of $14,132,000 compared to a use of cash of $38,672,000 for the three months ended December 31, 1999. The improvement in operating cash flows is principally due to the timing of payments to vendors and lenders, offset by payments made during the three months ended December 31, 2000 of approximately $11,400,000 for debt restructuring and reorganization costs. The Company's days sales outstanding for the three months ended December 31, 2000 were unchanged from the three months ended September 30, 2000 at 67 days. The Company's cash balance at December 31, 2000 was approximately $19,900,000, of which approximately $19,100,000 is held by Multicare. As a result of certain restrictions placed on Multicare and Genesis by their respective senior credit agreements and the automatic stay provisions imposed by the Bankruptcy Court, Genesis and Multicare are precluded from freely transferring funds through intercompany loans, advances or cash dividends. Consequently, the $19,100,000 of cash held by Multicare at December 31, 2000 is not available to Genesis.

At December 31, 2000, the Company reported restricted investments in marketable securities of $31,697,000, which are held by Liberty Health Corp. LTD. ("LHC"), Genesis' wholly-owned captive insurance subsidiary incorporated under the laws of Bermuda. The investments held by LHC are restricted by statutory capital requirements in Bermuda. In addition, certain of these investments are pledged as security for letters of credit issued by LHC. As a result of such restrictions and encumbrances, Genesis and LHC are precluded from freely transferring funds through intercompany loans, advances or cash dividends. LHC is not a party to the Chapter 11 cases.

Investing activities for the three months ended December 31, 2000 include approximately $11,600,000 of capital expenditures compared to approximately $14,300,000 for the comparable period of the prior year. Capital expenditures consist primarily of betterments and expansion of eldercare centers and investments in data processing hardware and software. In order to maintain our physical properties in a suitable condition to conduct our business and meet regulatory requirements, the Company expects to continue to incur capital expenditure costs at levels at or above those for the three months ended December 31, 2000 for the foreseeable future. Cash flows provided by investing activities for the three months ended December 31, 2000 include approximately $7,000,000 of cash proceeds from the sale of an eldercare center located in the Company's Chesapeake region.

Financing activities for the three months ended December 31, 2000 include net borrowings of $21,500,000 under the Genesis DIP Facility.

The Company incurred approximately $14,209,000 of debt restructuring and reorganization costs for the three months ended December 31, 2000. The Company anticipates that such costs will be incurred throughout the duration of the bankruptcy.

The Company has prepetition long-term debt obligations of approximately $2,258,040,000 at December 31, 2000, which are classified as liabilities subject to compromise. Due to the failure to make required debt service payments, meet certain financial covenants and the commencement of the Chapter 11 cases, the Company is in default on substantially all of the related debt agreements. The automatic stay protection afforded by the Chapter 11 cases prevents any action from being taken with regard to any of the defaults under the prepetition debt agreements. The Company continues to pay interest on approximately $1,059,000,000 of the prepetition debt obligations as adequate protection.

For the three months ended December 31, 2000, the Company incurred approximately $9,400,000 of lease obligation costs and expects to continue to incur lease costs at levels approximating those for the three months ended December 31, 2000 for the foreseeable future.

The Company's ability to continue as a going concern is dependent upon, among other things, confirmation of a plan of reorganization, future profitable operations, the ability to comply with the terms of the Company's debtor-in-possession financing agreements and the ability to generate sufficient cash from operations and financing arrangements to meet obligations. There can be no assurances the Company will be successful in achieving a confirmed plan of reorganization, future profitable operations, compliance with the terms of the debtor-in-possession financing arrangements and sufficient cash flows from operations and financing arrangements to meet obligations.

Although management believes that cash flow from operations, coupled with available borrowings under the DIP Facilities will be sufficient to fund the Companies' working capital requirements throughout the bankruptcy proceedings, there can be no assurances that such capital resources will be sufficient to fund operations until such time as the Company is able to propose a plan or reorganization that will be acceptable to creditors and confirmed by the Bankruptcy Court.

Insurance

The Company has experienced an adverse effect on operating cash flow beginning in the third quarter of 2000 due to an increase in the cost of certain of its insurance programs and the timing of funding new policies. Rising costs of eldercare malpractice litigation involving nursing care operators and losses stemming from these malpractice lawsuits has caused many insurance providers to raise the cost of insurance premiums or refuse to write insurance policies for nursing homes. Accordingly, the costs of general and professional liability and property insurance premiums have increased. In addition, as a result of the Company's current financial condition it is unable to continue certain self-insured programs and has replaced these programs with outside insurance carriers.

Prior to June 1, 2000, the Company purchased general and professional liability insurance coverage ("GL/PL") from various commercial insurers on a first dollar coverage basis. Beginning with the June 1, 2000 policy, the Company has purchased GL/PL coverage from a commercial insurer subject to a $500,000 per claim retention, except in Florida, where the retention is $2,500,000 per claim. On an annual basis, the cost of the GL/PL has increased by approximately $7,000,000, for the policy year ending June 1, 2001 as compared to the policy year ended June 1, 2000.

LHC, the Company's wholly owned captive insurance subsidiary, provides reinsurance for the Company and others. LHC has, or is currently, reinsuring certain windstorm, workers' compensation and GL/PL deductibles. The Company, based on independent actuarial studies, believes that LHC's reserves are sufficient to meet their obligations. LHC continues to operate as a going concern, and has been excluded from the Company's Chapter 11 cases.

The Company provides several health insurance options to its employees. Prior to Fiscal 1999, the Company offered a self-insured 80/20 indemnity plan (the "80/20 Plan") and several fully insured HMO's. In late Fiscal 1999, a new self insured indemnity plan (the "Choice Plan") was developed and made available to a limited number of employees. The Choice Plan became available to all employees in January 2000. The Choice Plan enabled employees to take advantage of much lower co-pays that were competitive with HMO co-pays, while still allowing them to go to any provider in the 80/20 Plan preferred provider organization. In Fiscal 2000, the medical and pharmacy utilization levels under the Choice Plan and the 80/20 Plan were greater than the Company anticipated, resulting in additional health insurance costs of approximately $28,000,000. Effective April 1, 2001, the Choice Plan will be eliminated from the Company's benefit program and employee copays for prescriptions will be increased.

30

Revenue Sources

The Company receives revenues from Medicare, Medicaid, private insurance, self-pay residents, other third party payors and long-term care facilities which utilize our specialty medical services. The healthcare industry is experiencing the effects of the federal and state governments' trend toward cost containment, as government and other third party payors seek to impose lower reimbursement and utilization rates and negotiate reduced payment schedules with providers. These cost containment measures, combined with the increasing influence of managed care payors and competition for patients, have resulted in reduced rates of reimbursement for services provided by the Company.

Congress has enacted three major laws during the past five years that have significantly altered payment for nursing home and medical ancillary services. The Balanced Budget Act of 1997 ("the 1997 Act"), signed into law on August 5, 1997, reduced federal spending on the Medicare and Medicaid programs. As implemented by HCFA, the 1997 Act has had an adverse impact on the Medicare revenues of many skilled nursing facilities. There have been three primary problems with the 1997 Act. First, the base year calculations understate costs. Second, the market basket index used to trend payments forward does not adequately reflect market experience. Third, the RUGs case mix allocation is not adequately predictive of the costs of care for patients, and does not equitably allocate funding, especially for non-therapy ancillary services. The Medicare Balanced Budget Refinement Act ("BBRA"), enacted in November 1999 addressed a number of the funding difficulties caused by the 1997 Act. A second enactment, the Benefits Improvement and Protection Act of 2000 ("BIPA"), was enacted on December 15, 2000, further modifying the law and restoring additional funding.

The reimbursement rates for pharmacy services under Medicaid are determined on a state-by-state basis subject to review by HCFA and applicable federal law. In most states, pharmacy services are priced at the lower of "usual and customary" charges or cost (which generally is defined as a function of average wholesale price and may include a profit percentage) plus a dispensing fee. Certain states have "lowest charge legislation" or "most favored nation provisions" which require our institutional pharmacy and medical supply operation ("NeighborCare(R)") to charge Medicaid no more than its lowest charge to other consumers in the state. During 2000, Federal Medicaid requirements establishing payment caps on certain drugs were revised ("Federal Upper Limits"). The final rulemaking was substantially modified minimizing the impact of the new rules on NeighborCare operations.

Pharmacy coverage and cost containment are important policy debates at both the Federal and state levels. Congress has considered proposals to expand Medicare coverage for out patient pharmacy services. Enactment of such legislation could affect institutional pharmacy services. Likewise, a number of states have proposed cost containment initiatives pending. Changes in payment formulas and delivery requirements could impact NeighborCare.

Congress and state governments continue to focus on efforts to curb spending on health care programs such as Medicare and Medicaid. Such efforts have not been limited to skilled nursing facilities, but have and will most likely include other services provided by us, including pharmacy and therapy services. We cannot at this time predict the extent to which these proposals will be adopted or, if adopted and implemented, what effect, if any, such proposals will have on us. Efforts to impose reduced allowances, greater discounts and more stringent cost controls by government and other payors are expected to continue.

While the Company has prepared certain estimates of the impact of the above changes, it is not possible to fully quantify the effect of recent legislation, the interpretation or administration of such legislation or any other governmental initiatives on its business. Accordingly, there can be no assurance that the impact of these changes will not be greater than estimated or that any future healthcare legislation will not adversely affect the Company's business. There can be no assurance that payments under governmental and private third party payor programs will be timely, will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs. The Company's financial condition and results of operations may be affected by the reimbursement process, which in the Company's industry is complex and can involve lengthy delays between the time that revenue is recognized and the time that reimbursement amounts are settled.

Certain service contracts permit our NeighborCare pharmacy operations to provide services to HCR Manor Care constituting approximately eleven percent and four percent of the net revenues of NeighborCare and Genesis, respectively. These service contracts with HCR Manor Care are the subject of certain litigation. See "Legal Proceedings".

NeighborCare pharmacy operations provide services to Mariner Post-Acute Network, Inc. and Mariner Health Group, Inc. (collectively, "Mariner") under certain service contracts. On January 18, 2000, Mariner filed voluntary petitions under Chapter 11 with the Bankruptcy Court. To date, the service contracts with Mariner have been honored; however, Mariner has certain rights under the protection of the Bankruptcy Court to reject these contracts, which represent six percent and two percent of the net revenues of NeighborCare and Genesis, respectively. Genesis participates as a member of the official Mariner unsecured creditors committee.

Legislative and Regulatory Issues

Legislative and regulatory action, including but not limited to the 1997 Balanced Budget Act, the Balanced Budget Refinement Act and the Benefits Improvement Protection Act of 2000 has resulted in continuing changes in the Medicare and Medicaid reimbursement programs which has adversely impacted the Company. The changes have limited, and are expected to continue to limit, payment increases under these programs. Also, the timing of payments made under the Medicare and Medicaid programs is subject to regulatory action and governmental budgetary constraints; in recent years, the time period between submission of claims and payment has increased. Within the statutory framework of the Medicare and Medicaid programs, there are substantial areas subject to administrative rulings and interpretations which may further affect payments made under those programs. Further, the federal and state governments may reduce the funds available under those programs in the future or require more stringent utilization and quality reviews of eldercare centers or other providers. There can be no assurances that adjustments from Medicare or Medicaid audits will not have a material adverse effect on us.

In July 1998, the Clinton administration issued a new initiative to promote the quality of care in nursing homes. Following this pronouncement, it has become more difficult for nursing facilities to maintain licensing and certification. We have experienced and expect to continue to experience increased costs in connection with maintaining our licenses and certifications as well as increased enforcement actions.

Anticipated Impact of Healthcare Reform

On December 15, 2000 Congress passed the Benefit Improvement and Protection Act of 2000 that, among other provisions, increases the nursing component of Federal PPS rates by approximately 16.7% for the period from April 1, 2001 through September 30, 2002. The legislation will also change the 20% add-on to 3 of the 14 rehabilitation RUG categories to a 6.7% add-on to all 14 rehabilitation RUG categories beginning April 1, 2001. The Part B consolidated billing provision of BBRA will be repealed except for Medicare Part B therapy services and, the moratorium on the $1,500 therapy caps will be extended through calendar year 2002. The Company has not yet evaluated what effect BIPA will have on its operating results.

PPS and other existing and future legislation and regulation have already, and may in the future, adversely affect our pharmacy and medical supply revenue, and other specialty medial services.

Seasonality

Our earnings generally fluctuate from quarter to quarter. This seasonality is related to a combination of factors which include the timing of Medicaid rate increases, seasonal census cycles, and the number of calendar days in a given quarter.

32

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At December 31, 2000, the Company had $1,638,397,000 of debt subject to variable market rates of interest, of which $1,483,898,000 is classified as a liability subject to compromise as a result of our Chapter 11 filings. Genesis continues to accrue and pay interest on approximately $1,213,500,000 of Genesis' variable rate debt. Multicare, as a result of its Chapter 11 cases, ceased accruing and paying interest on all of its variable rate debt following the Petition Date. At December 31, 2000, Genesis and Multicare have no interest rate swap agreements outstanding to manage exposure to increases in market rates of interest.

33

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

The Genesis and Vitalink Actions Against HCR Manor Care

On May 7, 1999, Genesis Health Ventures, Inc. and Vitalink Pharmacy Services (d/b/a NeighborCare(R)), a subsidiary of Genesis, filed multiple lawsuits requesting injunctive relief and compensatory damages against HCR Manor Care, Inc. ("HCR Manor Care"), two of its subsidiaries and two of its principals. The lawsuits arise from HCR Manor Care's threatened termination of long-term pharmacy services contracts effective June 1, 1999. Vitalink filed a complaint against HCR Manor Care and two of its subsidiaries in Baltimore City, Maryland circuit court (the "Maryland State Court Action"). Genesis filed a complaint against HCR Manor Care, a subsidiary, and two of its principals in federal district court in Delaware including, among other counts, securities fraud (the "Delaware Federal Action"). Vitalink has also instituted an arbitration action before the American Arbitration Association (the "Arbitration"). In these actions, Vitalink is seeking a declaration that it has a right to provide pharmacy, infusion therapy and related services to all of HCR Manor Care's facilities and a declaration that HCR Manor Care's threatened termination of the long-term pharmacy service contracts was unlawful. Genesis and Vitalink also seek over $100,000,000 in compensatory damages and enforcement of a 10-year non-competition clause.

Genesis acquired Vitalink from Manor Care in August 1998. In 1991, Vitalink and Manor Care had entered into long-term master pharmacy, infusion therapy and related agreements which gave Vitalink the right to provide pharmacy services to all facilities owned or licensed by Manor Care and its affiliates. On July 10, 1998, Manor Care advised Vitalink and Genesis that Manor Care would not provide notice of non-renewal of the master service agreements; accordingly the terms of the pharmacy service agreements were extended to September, 2004. Under the master service agreements, Genesis and Vitalink receive revenues at the rate of approximately $107,000,000 per year.

By agreement dated May 13, 1999, the parties agreed to consolidate the Maryland State Court Action relating to the master service agreements with the Arbitration matter. Accordingly, on May 25, 1999, the Maryland State Court Action was dismissed voluntarily. Until such time as a final decision is rendered in said Arbitration, or by the Bankruptcy Court, as appropriate, the parties have agreed to maintain the master service agreements in full force and effect.

HCR Manor Care and its subsidiaries have pleaded counterclaims in the Arbitration seeking damages for Vitalink's alleged overbilling for products and services provided to HCR Manor Care, a declaration that HCR Manor Care had the right to terminate the master service agreements, and a declaration that Vitalink does not have the right to provide pharmacy, infusion therapy and related services to facilities owned by HCR prior to its merger with Manor Care. According to an expert report submitted by HCR Manor Care on May 8, 2000, HCR Manor Care is seeking $17,800,000 in compensatory damages for alleged overbilling by Vitalink between September 1, 1998 and March 31, 2000.

On January 14, 2000, HCR Manor Care moved to dismiss Vitalink's claims in the Arbitration that it has a right to provide pharmacy and related services to the HCR Manor Care facilities not previously under the control of Manor Care. On May 17, 2000, the Arbitrator ordered the dismissal of Vitalink's claims seeking a declaratory judgment and injunctive relief for denial of Vitalink's right to service the additional HCR Manor Care facilities, but sustained Vitalink's claim seeking compensatory damages against HCR Manor Care for denial of that right.

34

Trial in the arbitration was originally scheduled to begin on June 12, 2000. On May 23, 2000, however, the Arbitrator postponed the trial indefinitely due to Vitalink's potential bankruptcy filing. In connection with this stay, the parties agreed that HCR Manor Care may pay, on an interim basis, NeighborCare 90 percent of the face amount of all invoices for pharmaceutical and infusion therapy goods and services that NeighborCare renders to respondents under the Master Service Agreements. The remaining 10 percent must be held in a segregated account by Manor Care. After Genesis and its affiliates, including Vitalink, filed voluntary petitions for restructuring under Chapter 11 of the Bankruptcy Code on June 22, 2000, the Arbitration was automatically stayed pursuant to 11 U.S.C. ss. 362(a).

On August 1, 2000, HCR Manor Care moved to lift the automatic stay and compel arbitration. On September 5, 2000, the Bankruptcy Court denied that motion, with leave to refile in 90 days. On December 8, 2000, Manor Care renewed its motion to lift the stay in the arbitration. On January 16, 2001, Genesis filed a motion to assume the master service agreements asserting that the determination of the Bankruptcy Court will supersede a significant number of issues in the Arbitration. On February 6, 2001, the Bankruptcy Court granted Manor Care's renewed motion to lift the stay in the

Arbitration, and postponed consideration of Genesis' motion to assume the master service agreements until after the Arbitration is completed. The trial in the Arbitration is now scheduled to begin during the week of July 20, 2001.

On June 29, 1999, defendants moved to dismiss or stay Genesis' securities fraud complaint filed in the Delaware Federal Action. On March 22, 2000, HCR Manor Care's motion was denied with respect to its motion to dismiss the complaint, but was granted to the extent that the action was stayed pending a decision in the Arbitration. Accordingly, Genesis still maintains the Delaware Federal Action. As a result of Genesis' Chapter 11 filing, this action is also automatically stayed pursuant to 11 U.S.C. ss. 362(a).

The Vitalink Action Against Omnicare and Heartland

On July 26, 1999, NeighborCare, through its Maryland counsel, filed an additional complaint against Omnicare, Inc. ("Omnicare") and Heartland Healthcare Services (a joint venture between Omnicare and HCR Manor Care) seeking injunctive relief and compensatory and punitive damages. The complaint includes counts for tortious interference with Vitalink's contractual rights under its exclusive long-term service contracts with HCR Manor Care. On November 12, 1999, in response to a motion filed by the defendants, that action was stayed pending a decision in the Arbitration.

The HCR Manor Care Action Against Genesis in Delaware

On August 27, 1999, Manor Care Inc., a wholly owned subsidiary of HCR Manor Care Inc., filed a lawsuit against Genesis in federal district court in Delaware based upon Section 11 and Section 12 of the Securities Act. Manor Care Inc. alleges that in connection with the sale of the Genesis Series G Preferred Stock issued as part of the purchase price to acquire Vitalink, Genesis failed to disclose or made misrepresentations related to the effects of the conversion to the prospective payment system on Genesis' earnings, the restructuring of the Genesis ElderCare Corp. Joint Venture, the impact of the operations of Genesis' Multicare affiliate on Genesis' earnings, the status of Genesis' labor relations, Genesis' ability to declare dividends on the Series G Preferred Stock, the value of the conversion right attached to the Series G Preferred Stock, and information relating to the ratio of combined fixed charges and preference dividends to earnings. Manor Care, Inc. seeks, among other things, compensatory damages and rescission of the purchase of the Series G Preferred Stock.

On November 23, 1999, Genesis moved to dismiss this action on the grounds, among others, that Manor Care's complaint failed to plead fraud with particularity. On September 29, 2000, the Court granted that motion in part and denied it in part. Specifically, the Court dismissed all of defendants' allegations except those concerning the Company's labor relations and the ratio of combined fixed charges and preference dividends to earnings.

On January 18, 2000, Genesis moved to consolidate this action with the action brought against HCR Manor Care in Delaware federal court. That motion has been fully submitted and is awaiting decision. As a result of Genesis' Chapter 11 filing, this action is also automatically stayed pursuant to 11 U.S.C. ss. 362(a).

The HCR Manor Care Action Against Genesis in Ohio

On December 22, 1999, Manor Care filed a lawsuit against Genesis and others in the United States District Court for the Northern District of Ohio. Manor Care alleges, among other things, that the Series H Senior Convertible Participating Cumulative Preferred Stock (the "Series H Preferred") and Series I Senior Convertible Exchangeable Participating Cumulative Preferred Stock (the "Series I Preferred") were issued in violation of the terms of the Series G Preferred and the Rights Agreement dated as of April 26, 1998 between Genesis and Manor Care. Manor Care seeks, among other things, damages and rescission or cancellation of the Series H and Series I Preferred. On February 29, 2000, Genesis moved to dismiss this action on the ground, among others, that Manor Care's complaint failed to state a cause of action. This motion has been fully submitted, including supplemental briefing by both parties, and is awaiting decision. As a result of Genesis' Chapter 11 filing, this action is also automatically stayed pursuant to 11 U.S.C. ss. 362(a).

Genesis is not able to predict the results of such litigation. However, if the outcome is unfavorable to us, and the claims of HCR Manor Care are upheld, such results would have a material adverse effect on our financial position. See "Cautionary Statement Regarding Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Revenue Sources."

Item 2. Changes in Securities Not Applicable

Item 3. Defaults Upon Senior Securities

On June 22, 2000, the Company and certain of its subsidiaries and affiliates filed voluntary petitions with the United States Bankruptcy Court for the District of Delaware to reorganize their capital structure under Chapter 11 of the United States Bankruptcy Code. As a result of the Chapter 11 cases, no principal or interest payments will be made on certain indebtedness incurred by the Company prior to June 22, 2000, including, among others, senior subordinated notes, until a plan of reorganization defining the payment terms has been approved by the Bankruptcy Court. Additional information regarding the Chapter 11 cases is set forth elsewhere in this Form 10-Q, including Note 2 to the Unaudited Condensed Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of

Operations."

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

Item 5. Other Information - Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Number	Description
99.1	Second Amendment and Waiver, dated as of February 14, 2001 to the Revolving Credit And Guarantee Agreement, dated as of June 22, 2000 among Genesis Health Ventures, Inc. and certain of its lenders.

(b) Reports on Form 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 thereto duly authorized.

GENESIS HEALTH VENTURES, INC.

Date: March 22, 2001

/s/ George V. Hager, Jr.

George V. Hager, Jr.
Executive Vice President and Chief
Financial Officer