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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

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

For the fiscal year ended May 31, 1974 **Commission file number** 2-35139

COMPREHENSIVE CARE CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

95-2594724
(I.R.S. EMPLOYER IDENTIFICATION NO.)

230 Newport Center Drive
Newport Beach, California
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

92660
(ZIP CODE)

Registrant's telephone number, including area code (714) 640-8950

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value $.10 per share
(TITLE OF CLASS)

(TITLE OF CLASS)

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

Item 1. Business.

(a) Registrant was incorporated in January, 1969, for the purpose of acquiring, constructing and operating health care enterprises, particularly in the acute psychiatric and alcoholic rehabilitation fields. At May 31, 1974, Registrant was operating (or participating in the operation of) four acute hospitals, two extended care facilities, one intermediate care facility and two board and care facilities. In addition, Registrant was managing CAREUNITS (Comprehensive Alcoholic Rehabilitation Environment Units) in five general hospitals.

The four acute hospitals are Brea Hospital - Neuropsychiatric Center (Brea); Fort Worth Neuropsychiatric Hospital (Fort Worth); Calabasas Hospital - Neuropsychiatric Center (Calabasas); and Crossroads Hospital (Crossroads).

Brea is a 125-bed facility located in Brea, California; Fort Worth is a 26-bed facility located in Fort Worth, Texas; Calabasas is a 117-bed facility located in Calabasas, California; and Crossroads is a 33-bed facility located in Van Nuys, California. These hospitals provide treatment for a wide range of psychiatric patients. Calabasas and Crossroads are jointly managed by Registrant and American Psychiatric Hospitals of California, Inc. ("APHI"), a Tennessee corporation, under a joint venture agreement entered into as of November 1, 1972. Under such agreement primary management responsibility for Calabasas is in APHI and primary management responsibility for Crossroads is in Registrant.

Registrant operates two extended care facilities, namely, Terracina Convalescent Hospital (Terracina) and Bay View Convalescent Hospital (Bay View). Terracina is a 78-bed facility located in Redlands, California; and Bay View is a 70-bed facility located in Costa Mesa, California.

Registrant operates one intermediate care and two board and care facilities, namely, Tustin Manor, Gilmar Manor and Bayview Manor.

Tustin Manor is a 90-bed facility located in Tustin, California; Gilmar Manor is a 78-bed facility located in Van Nuys, California; and Bayview Manor is a 70-bed facility located in Costa Mesa, California.

The CAREUNITS which Registrant manages are located in the South Coast Community Hospital in South Laguna, California; the Mercy Hospital in Denver, Colorado; the Mercy San Juan Hosp'tal in Carmichael, California; the St. Luke Hospital in Pasadena, California; and the Park Alameda Hospital in San Jose, California. Pursuant to contracts with such hospitals, Registrant, on a fee per patient per day basis provides treatment for alcoholic patients. Under such contracts, the hospitals provide routine hospital services such as room, meals and nursing care, and Registrant provides the doctor, psychologist, therapist, etc.

(b) (1) There are hospitals, extended care facilities and board and care facilities in the areas served by Registrant's facilities, some of which are much larger and have greater financial resources than those operated by Registrant. In addition, some of them are owned by governmental agencies and others by non-profit corporations which may be supported by endowments and charitable contributions not available to Registrant.

(2) Not applicable.

(3) Not applicable.

(4) Not applicable.

(5) Not applicable.

(6) Not applicable.

(7) Not applicable.

(8) As of May 31, 1974, Registrant employed approximately 350 persons.

(9) Not applicable.

(c) (1) Registrant operates only one line of business, namely, the operation of health care facilities, as described above.

(2) Not applicable.

Item 2. Summary of Operations.

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Item 2. Summary of Operations:

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED SUMMARY OF EARNINGS

	Year ended May 31				
	1974	1973*	1972	1971	1970
REVENUES:					
Patient care (Note B)	$4,928,000	$3,832,000	$2,762,000	$3,224,000	$2,981,000
Equity in earnings (loss) of joint venture (Note C)	78,000	(8,000)			
Other	90,000	60,000	200,000	163,000	37,000
	5,096,000	3,884,000	2,962,000	3,387,000	3,018,000
COSTS AND EXPENSES:					
Operating	3,378,000	2,775,000	2,466,000	2,272,000	2,060,000
General and administrative	1,134,000	801,000	854,000	621,000	415,000
Depreciation and amortization	98,000	92,000	92,000	72,000	61,000
Interest, primarily on long-term debt	121,000	121,000	119,000	122,000	97,000
Project development and preopening costs (Note D)			139,000		
	4,731,000	3,789,000	3,670,000	3,087,000	2,633,000
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES ON INCOME AND EXTRAORDINARY ITEMS	365,000	95,000	(708,000)	300,000	385,000
TAXES ON INCOME (CREDIT) (Note E)	186,000	44,000	(72,000)	127,000	177,000
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	179,000	51,000	(636,000)	173,000	208,000
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS, less applicable taxes on income (Note A)	(9,000)	(14,000)	(547,000)	79,000	56,000
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	170,000	37,000	(1,183,000)	252,000	264,000

*Restated to conform to 1974 classificactions.

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COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED SUMMARY OF EARNINGS

(Continued)

	Year ended May 31 1974	1973*	1972	1971	1970
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	$ 170,000	$ 37,000	($1,183,000)	$ 252,000	$ 264,000
EXTRAORDINARY ITEMS:					
Income tax reduction obtained by utilization of net operating loss carryforward (Note E)	200,000	123,000			63,000
Settlement of litigation and claims and provision for pending litigation and claims, net of related income tax credit of $67,000 - 1973 (Note I)		(62,000)	(200,000)		
Gain on sale of investment, net of related taxes on income of $259,000 (Note G)		473,000			
Write down of facility, net of related income tax credit of $89,000 - 1973 (Note H)		(82,000)	(1,175,000)		
Gain on sale of subsidiary, net of related taxes on income of $28,000				57,000	
Termination settlement with a former officer, net of income tax credit of $11,000					(29,000)
	200,000	452,000	(1,375,000)	57,000	34,000
NET EARNINGS (LOSS)	$ 370,000	$ 489,000	($2,558,000)	$ 309,000	$ 298,000
EARNINGS (LOSS) PER COMMON SHARE (Note F):					
Earnings (loss) from continuing operations	$.19	$.06	($ .70)	$.20	$.28
Earnings (loss) from discontinued operations	(.01)	(.02)	(.60)	.09	.07
Extraordinary items	.22	.49	(1.52)	.06	.05
Net earnings (loss)	$.40	$.53	($2.82)	$.35	$.40

*Restated to conform to 1974 classifications.

See notes to summary of operations.

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COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Convertible preferred stock		New preferred stock 8% convertible		Common stock		Additional paid-in capital	Retained earnings (deficit)	Stockholders' equity (deficiency in assets)
	Shares	Amount	Shares	Amount	Shares	Amount			
BALANCE, May 31, 1969	-	$ -	-	$ -	488,000	$49,000	$ -	$ 71,000	$ 120,000
Sale of preferred stock	8,500	850,000							850,000
Issuance of common stock for cash and equipment					15,500	1,000	64,000		65,000
Expenses in connection with acquisition of pooled companies							(40,000)		(40,000)
Net earnings								298,000	298,000
BALANCE, May 31, 1970	8,500	850,000			503,500	50,000	24,000	369,000	1,293,000
Sale of common stock in public offering, less underwriter's commission					134,990	14,000	820,000		834,000
Expenses in connection with sale of stock							(219,000)		(219,000)
Conversion of preferred stock into common	(8,250)	(825,000)			257,812	26,000	799,000		
Stock options exercised					1,400		8,000		8,000
Net earnings								309,000	309,000
BALANCE, May 31, 1971	250	25,000			897,702	90,000	1,432,000	678,000	2,225,000
Net earnings of pooled business for short period excluded from statement of operations								16,000	16,000
Issuance of common stock in connection with:									
Services rendered in connection with arranging financing					7,500	1,000	24,000		25,000
Leasehold costs					5,418	1,000	18,000		19,000
Rental lease advances					4,062		13,000		13,000
Exercise of stock option					2,500		14,000		14,000
Cancellation of shares previously issued					(150)		(1,000)		(1,000)
Net loss								(2,558,000)	(2,558,000)
BALANCE, May 31, 1972	250	25,000			917,032	92,000	1,500,000	(1,864,000)	(247,000)
Cancellation of shares previously issued					(3,350)	(1,000)	(18,000)		(19,000)
Net earnings								489,000	489,000
BALANCE, May 31, 1973	250	25,000			913,682	91,000	1,482,000	(1,375,000)	223,000
Sale of 8% convertible new preferred stock			6,100	305,000					305,000
Expenses related to sale of stock							(6,000)		(6,000)
Issuance of common stock in connection with settlement of a claim					25,000	3,000	10,000		13,000
Net earnings								370,000	370,000
BALANCE, May 31, 1974	250	$ 25,000	6,100	$305,000	938,682	$94,000	$1,486,000	($1,005,000)	$ 905,000

See notes to summary of operations.

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Item 2. Summary of Operations (continued):

NOTES TO SUMMARY OF OPERATIONS

Note A - Basis of Accounting:

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The consolidated financial statements for the year ended May 31, 1971, include the financial statements of Fort Worth Neuro-Psychiatric Hospital, Inc., a subsidiary acquired in March 1971, for the year ended March 31, 1971. Accordingly, the net income for the two months ended May 31, 1971, of $16,000 which has not been included in the consolidated statement of operations for the year ended May 31, 1972 or 1971, has been credited to retained earnings (deficit).

The net earnings (loss) from discontinued operations have been segregated in the consolidated summary of operations. The revenues and net earnings (loss) from these operations are summarized as follows:

	Year ended May 31				
	1974	1973	1972	1971	1970
Revenues	$577,000	$440,000	$1,711,000	$1,450,000	$1,537,000
Net earnings (loss)	($ 9,000)	($ 14,000)	($ 547,000)	$ 79,000	$ 56,000

Note B - Revenue from Patient Care:

A substantial amount of the revenue of the Company is provided under Federal, State and Blue Cross insurance programs. Allowable revenue under the programs is determined annually by fiscal intermediaries administering the programs based on cost reports filed by the Company. The Company is current with the filing of such cost reports; however, certain cost reports have not been audited by the intermediaries. The Company believes that adequate reserves have been provided in the financial statements.

During 1974, results of audits, appeals of audits and other adjustments relating to prior years increased revenues by approximately $146,000. In 1973, revenue was increased by approximately $144,000 as the result of audits, retroactive rate increases and other adjustments relating to prior years. During 1972, audits of prior years resulted in decreased revenues of approximately $330,000.

Note C - Equity in Earnings (Loss) of Joint Venture:

On November 1, 1972, the Company entered into a joint venture agreement with Hospital Affiliates, Inc. (HAI) of Nashville, Tennessee. In accordance with the agreement, certain assets and liabilities were transferred by Calabasas Hospital Neuro-Psychiatric Center (Company) and Woodview Psychiatric Hospital (HAI) to Neuro Affiliates Company, the joint venture partnership. The operations of Woodview were merged into the operations of Calabasas. The combined operations are being managed by HAI. After refurbishing of the Woodview facility, the hospital was reopened in February 1973, and is being managed by the Company. The two companies share equally in the results of operations from the joint venture.

The financial position of the joint venture at May 31, 1974 and 1973, is summarized as follows:

	1974	1973
Current assets	$706,000	$405,000
Current liabilities	665,000	508,000
Working capital (deficiency)	$ 41,000	($103,000)
Total assets	$913,000	$640,000
Total liabilities	694,000	578,000
Partners' equity	$219,000	$ 62,000

Item 2. Summary of Operations (continued):

NOTES TO SUMMARY OF OPERATIONS

(Continued)

Operations for the year ended May 31, 1974, and the seven months ended May 31, 1973, are summarized as follows:

	1974	1973
Revenues	$2,084,000	$893,000
Costs and expenses	1,927,000	910,000
Net earnings (loss) before taxes on income	$ 157,000	($ 17,000)

Note D - Project Development and Preopening Costs:

In years prior to 1972, project development and preopening costs incurred in connection with opening new hospitals, were deferred and amortized over five and three years, respectively, commencing with the fiscal year following the year in which the facilities became operational.

The Company reconsidered its policy of accounting for these costs, acknowledging the current trends in financial reporting. In negotiations which culminated in the sale of Raleigh Hills Hospital, Inc., it became apparent that the deferral of such costs is discouraged by the investment community. The Company elected therefore to change its method of accounting for such costs and adopted the policy of charging these costs to expense at the time they are incurred.

The project development and preopening costs expensed at May 31, 1972, were incurred as follows:

		Applicable to	
Year ended May 31		Continuing operations	Discontinued operations
1970	$ 39,000	$ 10,000	$ 29,000
1971	275,000	55,000	220,000
1972	212,000	74,000	138,000
	$526,000	$139,000	$387,000

Note E - Taxes on Income:

The Company and its subsidiaries file consolidated corporate income tax returns. Prior to May 31, 1972, separate corporate income tax returns were filed.

In prior years, project development and preopening costs were deducted in the period incurred for income tax purposes. These costs were deferred for financial reporting purposes and accordingly the financial statements reflected deferred taxes on income. During the year ended May 31, 1972, the Company changed its accounting policy for project development and preopening costs (see Note D) eliminating the necessity for the deferred taxes on income previously provided. The provision for taxes on income in 1971 included deferred taxes of $101,000, and the tax credit in 1972 included a reversal of deferred taxes for $101,000.

The provision (credit) for current and deferred taxes on income is summarized as follows:

	Year ended May 31				
	1974	1973	1972	1971	1970
Current	$ -	$ -	($ 89,000)	$ 73,000	$237,000
Deferred			(101,000)	101,000	
	$ -	$ -	($190,000)	$174,000	$237,000

Above amounts reflect the net tax provision (credit) distributed to earnings (loss) from continuing operations, earnings (loss) of discontinued operations and extraordinary items.

Item 2. Summary of Operations (continued):

NOTES TO SUMMARY OF OPERATIONS

(Continued)

The Company and its subsidiaries have federal income tax carryforwards for tax reporting purposes to offset future taxable income as follows:

Amount	Expiration date
$ 17,000	May 31, 1976
850,000	May 31, 1977
390,000	May 31, 1978
100,000	May 31, 1979
$1,357,000	

For financial reporting, the Company and its subsidiaries have federal income tax carryovers of approximately $1,539,000 available to offset future income. The differences in the amount of the tax loss carryforward is due principally to deferral for financial reporting of a gain on sale and leaseback of property which is recognized for tax reporting in the year the gain was realized.

Investment tax credits are accounted for by use of the "flow-through" method whereby the provision for federal income taxes is reduced by the amount of the credits in the year they are realized.

The Company and its subsidiaries have investment tax credit carryforwards to reduce future income taxes as follows:

Amount	Expiration date
$ 10,000	May 31, 1979
1,000	May 31, 1980
11,000	May 31, 1981
$ 22,000	

Note F - Earnings Per Share:

Earnings (loss) per common share are based on the weighted average number of common shares outstanding during each year, adjusted to give effect to (1) common shares issued in connection with poolings of interests and (2) common share equivalents related to the conversion of the preferred stock (1970, 1971, 1973 and 1974). In 1972, these shares would be antidilutive.

	Average outstanding common shares and common share equivalents
1970	752,390
1971	873,595
1972	907,958
1973	923,194
1974	924,412

Earnings per common share computed on net income of $368,000 giving effect to $2,000 preferred dividends.

The dilutive effect of outstanding stock options and warrants was not significant for years prior to 1972. In 1972, 1973 and 1974, the effect of stock options and warrants is antidilutive. The dilutive effect of the 8% new preferred stock issued in 1974 is not significant.

No cash dividends have been paid.

Note G - Gain on Sale of Investment:

On June 1, 1972, the common stock of Raleigh Hills Hospital, Inc., a wholly-owned subsidiary of the Company, was exchanged for common stock of Advanced Health Systems, Inc. Subsequently, the Company sold all of their shares of Advanced Health Systems, Inc. for cash and cancellation of debt. The Company has a five-year option to repurchase the stock.

NOTES TO SUMMARY OF OPERATIONS

(Continued)

Note H - Write-down of Facility:

The Company was not successful in leasing, selling or reopening the Alta Mesa Convalescent Hospital which was closed in February 1971, as the result of earthquake damage. Foreclosure proceedings have been finalized by a trust deed holder and the property has been sold. Accordingly, the property and related liabilities have been eliminated from the books.

During the year ended May 31, 1972, the facility was written down to estimated net realizable value as follows:

Excess of cost over related net assets acquired attributable to Alta Mesa	$ 400,000
Modification repairs and maintenance of building and grounds	353,000
Provision for write-down of property, plant and equipment	200,000
Other	222,000
	$1,175,000

The property was written down additionally during the year ended May 31, 1973, as follows:

Provision for estimated settlement of claim relative to second trust deed and related legal expense	$ 151,000
Other	20,000
	171,000
Less applicable income tax credit	(89,000)
	$ 82,000

Note I - Settlement of Litigation and Claims and Provision for Pending Litigation and Claims:

At May 31, 1974, all material lawsuits and claims filed against the Company have been settled. In the opinion of management, adequate provision has been made for remaining litigation and claims.

Item 2. Summary of Operations (continued):

The summary of operations reflects net earnings of $370,000 for the fiscal year ended May 31, 1974, as compared to net earnings of $489,000 for the fiscal year ended May 31, 1973. Such differences between the two years are summarized in the following tabulations:

	Earnings (loss)
Fiscal year ended May 31, 1974:	
1. Earnings from operations resulting primarily from increased census levels, increased rates, less increase in corporate overhead	$222,000
2. Increase in earnings resulting from audits, appeals of audits and other adjustments relating to prior years	146,000
3. Equity in earnings of joint venture	78,000
4. Start-up costs relative to CAREUNITS	(67,000)
5. Loss from discontinued operations - Anaheim Doctors Hospital	(9,000)
	$370,000
Fiscal year ended May 31, 1973:	
1. Gain on sale of investment in Advanced Health Systems, Inc.	$732,000
2. Additional writedown of Alta Mesa Convalescent Hospital (previously written down in fiscal 1972)	(171,000)
3. Settlement of litigation and claims and provision for pending litigation and claims	(129,000)
4. Increase in revenue due to retroactive Medi-Cal rate increases and Medicare and Blue Cross adjustments as a result of audits for the prior year	144,000
5. Reduction on operating losses of operations commencing in fiscal 1972:	
Calabasas Psychiatric Hospital (transferred to a joint venture November 1, 1972)	(29,000)
Raleigh Hills Alcoholic Hospital (sold to Advanced Health Systems, Inc. June 1, 1972)	
Bayview Manor Residential Home	(63,000)
6. Other, net	5,000
	$489,000

Item 3. Properties.

Registrant's executive offices are located in an office building at 230 Newport Center Drive, Suite 222, Newport Beach, California. They consist of approximately 5,337 square feet and are leased at $3,469 per month under a lease which expires in 1978. Registrant owns Bay View Convalescent Hospital and Gilmar Manor. All of Registrant's other health care facilities are operated under leases. The following table sets forth by facility the addresses of the facilities, the dates the leases expire and the monthly rental payable thereunder.

Facility and Address	Lease Expires	Monthly Rental*
Brea Hospital - Neuro-psychiatric Center 875 North Brea Blvd. Brea, California 92621	1986	$11,560
Fort Worth Neuro-psychiatric Hospital 1066 West Magnolia Fort Worth, Texas 76104	1996	3,792
Calabasas Hospital - Neuro-psychiatric Center 25100 Calabasas Road Calabasas, California 92373	1996	14,800(1)
Crossroads Hospital 6305 Woodman Avenue Van Nuys, California 91401	1987	5,577
Terracina Convalescent Hospital 1620 West Fern Avenue Redlands, California 92373	1986	4,602
Tustin Manor 1051 Bryan Tustin, California 92680	1995	6,000
Bayview Manor 350 Bay Street Costa Mesa, California 92627	1996	4,375

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* Subject to increase every five years based upon increases in the Consumer Price Index published by the U. S. Department of Labor, Bureau of Labor Statistics.

(1) This amount is reimbursable to the Registrant under provisions of a joint venture agreement (See Item 1).

Item 4. Parents and Subsidiaries.

Registrant has no parents. The following is a list of all subsidiarires of Registrant setting forth as to each subsidiary the percentage of voting securities owned, or other basis of control, by its parent:

Company	State of Incorporation	Percentage of Voting Securities Owned
NPHS, Inc.*	California	100%
Terracina Convalescent Hospital*	California	100%
Fort Worth Neuropsychiatric Hospital, Inc.*	Texas	100%
CAREUNIT, Inc.*	California	100%

Item 5. Pending Legal Proceedings.

Registrant was not engaged in any material legal proceedings during the fiscal year ended May 31, 1974, except as follows:

Calabasas.

On or about November 27, 1971, Calabasas Hospital Limited Partnership filed a Complaint in the Superior Court of the State of California for the County of Los Angeles (No. NWC 30725) for unlawful detainer against Registrant, pursuant to which plaintiff sought to terminate a lease and to evict Registrant from Calabasas, which is operated under a joint venture agreement with American Psychiatric Hospitals of California, Inc. See "Item 1--Business." The plaintiff in such action is the lessor of the hospital pursuant to a 25-year Lease Agreement with Registrant which runs through 1995. The alleged grounds for the right to terminate the Lease Agreement included a purported

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* Subsidiaries included in consolidated financial statements.

assignment to the joint venture in violation of the Lease Agreement and certain alterations to the hospital which were alleged to have been without the lessor's required consent and in violation of permit requirements.

This action was tried in April, 1974, and judgment was entered in favor of Registrant. In addition, attorneys' fees in the amount of $30,600 plus costs were awarded by the Court to Registrant under the terms of the Lease.

<u>Alta Mesa</u>.

Until December, 1972, NPHS, Inc., a subsidiary of Registrant, was liable to Wolhi, Inc. under a promissory note secured by a second deed of trust on the Alta Mesa Convalescent Hospital property. The balance due on said note was approximately $550,000. NPHS defaulted in the payment of such note, but had no liability to Wolhi other than forfeiting its interest in the Alta Mesa facility, as the aforementioned promissory note and second deed of trust were given in a purchase-money transaction. NPHS had also defaulted in the payment of a note secured by a first deed of trust on the facility. Such holder commenced foreclosure proceedings and an intervening lien holder bought the property at a private sale. The result was that NPHS, as a practical matter, was relieved of liability on the first trust deed note and in addition was relieved of approximately $100,000 of liability on its note to Wolhi.

At or about the time of the purchase of the Alta Mesa facility, Registrant guaranteed the promissory note to Wolhi and the latter in January, 1974, commenced an action against Registrant for payment of such note based upon such guaranty. This action was settled in April, 1974, upon Registrant paying Wolhi $50,000; issuing its 7% note to Wolhi for $100,000, payable in installments over 3 years; and delivering to Wolhi 25,000 shares of Registrant's Common Stock. See "Item 6--Increases and Decreases in Outstanding Securities."

Item 6. Increases and Decreases in Outstanding Securities.

(a) Preferred Stock - Shares outstanding at June 1, 1973, and at May 31, 1974: 250

New Preferred Stock - shares outstanding at June 1, 1973: -0-

(1) Issued on April 19, 1974, for cash at $50 per share: 5,800*

(2) Issued in May, 1974, for cash at $50 per share: 300

Shares outstanding at May 31, 1974 6,100

Common Stock - shares outstanding at June 1, 1972: 913,682

(1) Issued on April 19, 1974, in partial settlement of litigation: 25,000*

Shares outstanding at May 31, 1974: 938,682

Warrants - outstanding at June 1, 1973, and at May 31, 1974: 25,561

(b) Information re the above securities issued during the fiscal year ended May 31, 1974, none of which were registered under the Securities Act of 1933:

(1) Date Sold:

April 19, 1974 -- 25,000 shares Common Stock

April 19, 1974 -- 5,800 shares New Preferred Stock

May, 1974 -- 300 shares New Preferred Stock

(2) Market Price on Date of Sale:

Common Stock $1.00 bid; $1.25 asked. New Preferred Stock not traded; it was a new issue.

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* Reported in Form 8-K for April, 1974.

(3) Brokers, Underwriters or Finders:

None.

(4) Consideration for Securities Sold:

The proceeds from the sale of 25,000 shares of Common Stock was a part of the payment required to settle a claim involving the Alta Mesa Convalescent Hospital, a facility formerly owned by Registrant which had been damaged in the 1971 earthquake in Los Angeles County. See "Item 5--Pending Legal Proceedings." The proceeds from the sale of 6,100 shares of New Preferred Stock was $305,000 in cash. No underwriting discounts, brokerage commissions or finder's fees were paid with respect to such cash sale.

(5) Exemption Under the Act:

The issuance of 25,000 shares of Common Stock to three persons and the sale and issuance of 6,100 shares of New Preferred Stock to 19 persons were not registered under the Securities Act of 1933. Registrant obtained such evidence (including written representations of the issuees) as it deemed necessary to assure itself that these securities were purchased for investment and not with a view to distribution; and therefore determined that the offer and sale of these securities was exempt from the registration and prospectus delivery requirements of the Act pursuant to Section 4(2) thereof as transactions not involving any public offering.

(6) Legend, Stop Transfer:

All of the above-mentioned securities were marked with a Security Act "investment legend" and Registrant gave stop-transfer instructions to its transfer agent, U. S. Stock Transfer Corporation, with respect to the 25,000 shares of Common Stock. No stop-transfer instructions were given to U. S. Stock Transfer Corporation with respect to the 6,100 shares of New Preferred Stock as Registrant is acting as its own transfer agent with respect to such shares.

Item 7. Approximate Number of Equity Security Holders.

Title of Class	Number of Record Holders as of May 31, 1973
Common Stock, par value $.10 per share	573
Preferred Stock, par value $100 per share	1
New Preferred Stock, par value $50 per share	19

Item 8. Executive Officers of the Registrant.

Name	Office	Age
B. Lee Karns	President	44
A. Joel Klein	Executive Vice President	34
Leon G. Van Luchene	Senior Vice President, Finance & Treasurer	42
William James Nicol	Administrative Vice President & Secretary	30

No family relationships exist between any of the above-named officers of the Registrant.

Mr. Karns has been the President of Registrant since May, 1972. From January, 1969, to May, 1972, he was the Chief Executive Officer of S.D.S. Management Services, a health care consulting firm.

Mr. Klein has been the Executive Vice President of Registrant since November, 1972. For approximately four years prior thereto he was an officer of S.L.S. Management Services.

Mr. Van Luchene is a certified public accountant. He has been Registrant's corporate controller since September, 1969, a Vice President of Registrant since 1970, and Treasurer since December, 1973.

Mr. Nicol has been the Secretary of Registrant since December, 1973, and a Vice President of Registrant since April, 1974. He was a Project Manager and the Controller of Advanced Health Systems, Inc., a hospital management firm from December, 1972, to June, 1973. From December, 1970, to November, 1972, Mr. Nicol was employed by S.D.S. Management Services. Prior to that, Mr. Nicol was a student.

Item 9. <u>Indemnification of Directors and Officers</u>.

Section 145 of the General Corporation Law of the State of Delaware, Registrant's State of incorporation, provides, among other things, that a corporation may indemnify an officer or director against expenses, fees (including attorneys' fees), judgments, and amounts paid in settlement, actually and reasonably incurred by such officer or director in connection with any civil, criminal, administrative or investigative action, suit or proceeding (other than an action brought by or in the right of the corporation) if such officer or director was named in such action, suit or proceeding by reason of the fact that he was such a director or officer of the corporation and if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, he had no reasonable cause to believe his conduct was unlawful.

A corporation may also indemnify an officer or director against expenses (including attorneys' fees) reasonably incurred in connection with the defense or settlement of any action or suit brought by or in the right of the corporation, except that no indemnification may be made in respect to any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in performance of his duty to the corporation unless the court shall determine that such person is fairly and reasonably entitled to indemnity for such expenses.

In addition to the foregoing, to the extent that a director or officer is successful on the merits or otherwise in the defense of any action, suit or proceeding referred to above, or in defense of any claim, issue or matter therein he may be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Except in the case where an officer or director has been successful in his defense of an action or any claim, issue or matter therein, the determination as to whether any such officer or director shall be indemnified shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors who are not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

Other provisions of Section 145 provide that, upon the meeting of certain conditions, expenses of an officer or director may be paid prior to final disposition of the action; that indemnification provided by the statute shall not be deemed the exclusive of any other rights which said officer or director may have; that the corporation may purchase and maintain insurance on behalf of any such officer or director; and that the provisions of said section apply to constituent corporations.

Item 10. Financial Statements and Exhibits Filed.

(a) The Index to Financial Statements and Schedules appearing on page S-1 of Exhibit 10 hereto, is a list of all financial statements filed as a part of this report.

(b) Exhibits.

(1) Lease dated August 14, 1973, between Registrant and J.P.H. Enterprises (re executive offices located at 230 Newport Center Drive, Suite 222, Newport Beach, California).

(2) Calculation of Primary Earnings Per Share.

PART II

Omitted. Registrant has filed proxy material with respect to its Annual Meeting covering its fiscal year ended May 31, 1974.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPREHENSIVE CARE CORPORATION

William James Nicol,
Administrative Vice President

DATED: August 30, 1974.

TOUCHE ROSS & CO.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

FINANCIAL STATEMENTS AND SCHEDULES COMPRISING ITEM 10(a)

OF ANNUAL REPORT ON FORM 10-K

TO SECURITIES AND EXCHANGE COMMISSION

YEAR ENDED MAY 31, 1974

TOUCHE ROSS & CO.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

FINANCIAL STATEMENTS AND SCHEDULES

YEARS ENDED MAY 31, 1974 AND 1973

INDEX

All other schedules are omitted because they are inapplicable, not required under the instructions or the information is included in the financial statements or notes thereto.

TOUCHE ROSS & CO.

3700 WILSHIRE BOULEVARD
LOS ANGELES, CALIFORNIA 90010

July 25, 1974

Board of Directors
Comprehensive Care Corporation
Newport Beach, California

We have examined the balance sheet of Comprehensive Care Corporation and the consolidated balance sheet of Comprehensive Care Corporation and subsidiaries as of May 31, 1974 and 1973, and the related statements of earnings, stockholders' equity and changes in financial position for the years then ended and the additional notes and schedules listed in the accompanying index. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Comprehensive Care Corporation and the consolidated financial position of the Company and subsidiaries at May 31, 1974 and 1973, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Further, in our opinion, the additional notes and schedules present fairly the information therein set forth.

Touche Ross & Co.

Certified Public Accountants

TOUCHE ROSS & CO.

3700 WILSHIRE BOULEVARD
LOS ANGELES, CALIFORNIA 90010

July 15, 1974

Management Committee
Neuro Affiliates Company
Calabasas, California

We have examined the balance sheet of Neuro Affiliates Company as of May 31, 1974 and 1973, and the related statements of operations, partners' capital and changes in financial position for the year ended May 31, 1974, and the seven months ended May 31, 1973. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Neuro Affiliates Company at May 31, 1974 and 1973, and the results of its operations and the changes in its financial position for the year ended May 31, 1974, and the seven months ended May 31, 1973, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

TOUCHE ROSS & CO.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	May 31 1974	May 31 1973*
ASSETS		
CURRENT ASSETS:		
Cash (including restricted balances of $14,000 - 1974 and $11,000 - 1973)	$ 101,000	$ 62,000
Accounts receivable, less allowance for doubtful accounts of $187,000 - 1974 and $135,000 - 1973, partially assigned as collateral to short-term borrowings of $9,000 - 1974 (Note 14 and Schedule XII)	1,090,000	579,000
Prepaid expenses and supplies	208,000	161,000
TOTAL CURRENT ASSETS	1,399,000	802,000
PROPERTY, PLANT AND EQUIPMENT, at cost, substantially pledged (Notes 1, 3 and 15 and Schedules V and VI):		
Land	216,000	216,000
Buildings and improvements	664,000	658,000
Furniture and equipment	734,000	589,000
Leasehold improvements	211,000	174,000
	1,825,000	1,637,000
Less accumulated depreciation and amortization	(437,000)	(362,000)
	1,388,000	1,275,000
LEASE ACQUISITION COSTS (Note 1 and Schedule VII)	362,000	391,000
COST IN EXCESS OF NET ASSETS OF PURCHASED BUSINESSES (Note 1 and Schedule VII)	517,000	517,000
OTHER ASSETS:		
Investment in a joint venture (Note 7 and Schedule III)	109,000	31,000
Notes receivable		239,000
Other	56,000	52,000
	165,000	322,000
	$3,831,000	$3,307,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ 9,000	$ -
Accounts payable and accrued expenses (Note 17)	786,000	567,000
Amounts due under insurance programs within one year (Note 2)	398,000	452,000
Long-term debt due within one year (Note 3)	161,000	112,000
TOTAL CURRENT LIABILITIES	1,354,000	1,131,000
AMOUNTS DUE UNDER INSURANCE PROGRAMS AFTER ONE YEAR (Note 2)	83,000	
DEFERRED GAIN ON SALE AND LEASEBACK OF PROPERTY (Note 1)	160,000	167,000
RESERVE FOR LITIGATION AND CLAIMS (Note 11)	60,000	440,000
LONG-TERM DEBT DUE AFTER ONE YEAR (Note 3)	1,269,000	1,346,000
COMMITMENTS (Note 12)		
STOCKHOLDERS' EQUITY:		
Capital stock:		
Convertible Preferred Stock, par value $100 a share; authorized, 250 shares; issued and outstanding, 250 shares (Note 4)	25,000	25,000
New Preferred Stock, par value $50 a share; authorized, 60,000 shares, 8% Convertible Series, issued and outstanding, 6,100 shares (Note 5)	305,000	
Common Stock, par value $.10 a share; authorized, 2,000,000 shares; issued and outstanding, 938,682 shares - 1974 and 913,682 shares - 1973 (Note 6)	94,000	91,000
Additional paid-in capital	1,486,000	1,482,000
Deficit	(1,005,000)	(1,375,000)
	905,000	223,000
	$3,831,000	$3,307,000

*Restated to conform to 1974 classifications.

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

	May 31	
	1974	1973*
REVENUES:		
Patient care (Note 2)	$4,928,000	$3,832,000
Equity in earnings (loss) of joint venture (Note 7)	78,000	(8,000)
Other	90,000	60,000
	5,096,000	3,884,000
COSTS AND EXPENSES:		
Operating	3,378,000	2,775,000
General and administrative	1,134,000	801,000
Depreciation and amortization	98,000	92,000
Interest	121,000	121,000
	4,731,000	3,789,000
EARNINGS FROM CONTINUING OPERATIONS BEFORE TAXES ON INCOME AND EXTRAORDINARY ITEMS	365,000	95,000
TAXES ON INCOME	186,000	44,000
EARNINGS FROM CONTINUING OPERATIONS	179,000	51,000
LOSSES FROM DISCONTINUED OPERATIONS, net of related income tax credits of $10,000 - 1974 and $15,000 - 1973 (Note 10)	(9,000)	(14,000)
EARNINGS BEFORE EXTRAORDINARY ITEMS	170,000	37,000
EXTRAORDINARY ITEMS:		
Income tax reduction obtained by utilization of net operating loss carryforward (Note 13)	200,000	123,000
Settlement of litigation and claims and provision for pending litigation and claims, net of related income tax credit of $67,000 (Note 11)		(62,000)
Gain on sale of investment, net of related taxes on income of $259,000 (Note 8)		473,000
Write-down of facility, net of related income tax credit of $89,000 (Note 9)		(82,000)
	200,000	452,000
NET EARNINGS	$ 370,000	$ 489,000
EARNINGS PER COMMON SHARE (Note 1):		
Earnings from continuing operations	$.19	$.06
Losses from discontinued operations	(.01)	(.02)
Extraordinary items	.22	.49
	$.40	$.53

*Restated to conform to 1974 classifications.

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Convertible preferred stock		New preferred stock 8% Convertible		Common stock		Additional paid-in capital	Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
BALANCE, May 31, 1972	250	$25,000		$ -	917,032	$92,000	$1,500,000	($1,864,000)	($247,000)
Cancellation of shares previously issued					(3,350)	(1,000)	(18,000)		(19,000)
Net earnings								489,000	489,000
BALANCE, May 31, 1973	250	25,000			913,682	91,000	1,482,000	(1,375,000)	223,000
Sale of 8% Convertible New Preferred Stock (Note 5)			6,100	305,000					305,000
Expenses related to sale of stock							(6,000)		(6,000)
Issuance of Common Stock in connection with settlement of a claim					25,000	3,000	10,000		13,000
Net earnings								370,000	370,000
BALANCE, May 31, 1974	250	$25,000	6,100	$305,000	938,682	$94,000	$1,486,000	($1,005,000)	$905,000

See notes to consolidated financial statements.

TOUCHE ROSS & CO.

DISCLOSURE® IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended May 31 1974	1973*
SOURCE OF FUNDS:		
Operations:		
Earnings before extraordinary items	$170,000	$ 37,000
Items not requiring (providing) outlay of working capital:		
Depreciation and amortization	123,000	123,000
Equity in (earnings) loss of joint venture	(78,000)	8,000
Funds provided from operations before extraordinary items	215,000	168,000
Extraordinary items	200,000	452,000
Items not requiring outlay of working capital		122,000
	200,000	574,000
Funds provided from operations, including extraordinary items	415,000	742,000
Net proceeds from sale of new preferred stock	299,000	
Additional long-term debt due after one year	106,000	69,000
Additions of amounts due under insurance programs after one year	83,000	
Decrease (increase) in deferred costs, deposits and other assets	(4,000)	97,000
Sales, retirements and abandonments of property, plant and equipment	2,000	1,581,000
Book value of investment sold		116,000
TOTAL FUNDS PROVIDED	$901,000	$2,605,000
APPLICATION OF FUNDS:		
Purchases of property, plant and equipment	$216,000	$ 25,000
Settlement of litigation and claims by cash payments, issuance of notes, issuance of common stock and cancellation of notes receivable and payable	163,000	
Decrease in long-term debt:		
Payments	148,000	512,000
Debt related to property foreclosed		1,152,000
Debt assumed		291,000
Decrease in deferred gain on sale and leaseback of property		217,000
Investment in joint venture		39,000
Cancellation of stock previously issued		19,000
Other		2,000
Increase in working capital	374,000	348,000
TOTAL FUNDS APPLIED	$901,000	$2,605,000
SUMMARY OF INCREASES (DECREASES) IN WORKING CAPITAL:		
Current assets:		
Cash	$ 39,000	($ 227,000)
Accounts receivable	511,000	(268,000)
Prepaid expenses and supplies	47,000	(132,000)
	597,000	(627,000)
Current liabilities:		
Short-term borrowings	9,000	(76,000)
Accounts payable and accrued expenses	219,000	(686,000)
Amounts due under insurance programs within one year	(54,000)	(142,000)
Long-term debt due within one year	49,000	(71,000)
	223,000	(975,000)
INCREASE IN WORKING CAPITAL	$374,000	$ 348,000

*Related to conform to 1974 classifications.

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 1974 AND 1973

Note 1 - Summary of Significant Accounting Policies:

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Depreciation and Amortization

The cost of buildings, equipment and leasehold improvements is depreciated or amortized over the estimated useful lives of the assets, using the straight-line method.

Lease Acquisition Costs

Lease acquisition costs incurred in obtaining two long-term leases of hospital facilities are amortized over the term of the leases which expire in 1986 and 1997.

Project Development and Preopening Costs

Project development and preopening costs are charged to operations as they are incurred.

Cost in Excess of Net Assets of Purchased Businesses

Cost in excess of net assets of purchased businesses is not being amortized since, in the opinion of management, there has been no decline in the values of these businesses.

Taxes on Income

The Company and its subsidiaries file consolidated corporate income tax returns.

Investment tax credits are accounted for by use of the "flow-througn" method whereby the provision for federal taxes on income is reduced by the amount of the credits in the year they are realized.

Deferred Gain on Sale and Leaseback of Property

The gain realized on the sale and leaseback of a facility is being amortized on the straight-line basis over the twenty-five year term of the related lease, partially offsetting rent and leasehold costs.

Earnings Per Common Share

Earnings per common share are based on the weighted average number of common shares outstanding each year. Earnings per common share were adjusted to give effect to common share equivalents related to conversion rights of the Convertible Preferred Stock. The New Preferred Stock, stock options and warrants outstanding are not dilutive at May 31, 1974 or 1973.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 1974 AND 1973

(Continued)

Note 2 - Estimated Amounts Due Under Insurance Programs:

A substantial amount of the revenue of the Company is provided under federal, state and Blue Cross insurance programs. Allowable revenue under the programs is determined annually by fiscal intermediaries administering the programs based on cost reports filed by the Company. The Company is current with the filing of such cost reports; however, certain cost reports have not been audited by the intermediaries. The Company believes that adequate reserves have been provided in the financial statements.

During 1974, results of audits, appeals of audits and other adjustments relating to prior year's increased revenue by approximately $146,000. In 1973, revenue was increased by approximately $144,000 as the result of audits, retroactive rate increases and other adjustments relating to prior years.

Note 3 - Long-term Debt:

Long-term debt is summarized as follows:

	May 31 1974	May 31 1973
6-1/2% to 10% notes, collateralized by trust deeds, due in monthly installments with maturity dates from 1980 through 1993	$ 620,000	$ 662,000
Note payable to Small Business Administration, uncollateralized, with interest at 3% due in monthly installments through 2002	347,000	347,000
Unsecured notes bearing interest at 8-1/2%, payable in quarterly installments until July 1, 1983	100,000	
Unsecured note bearing interest at 7%, payable in quarterly installments until July 15, 1980	100,000	
Unsecured note bearing interest at 6%, payable in quarterly installments until January 1, 1976	38,000	58,000
Unsecured note bearing interest at 8%, payable in quarterly installments until January 1, 1981	28,000	
Noninterest bearing note payable to a stockholder collateralized by real property, payable in monthly installments until July 15, 1978	23,000	31,000
Furniture and equipment obligations	174,000	360,000
	1,430,000	1,458,000
Less amounts due within one year	(161,000)	(112,000)
	$1,269,000	$1,346,000

Amounts of long-term debt maturing in 1976, 1977, 1978 and 1979 approximate $159,000, $124,000, $118,000 and $123,000, respectively.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 1974 AND 1973

(Continued)

Note 4 - Convertible Preferred Stock:

The rights and preferences of this preferred stock issue provide that the holders shall not be entitled to receive any dividends. The Company may at any time after June 15, 1974, redeem all, but not less than all, of the then outstanding preferred shares at the redemption price of $100 per share. Each holder of shares shall have the right at any time to convert each such share into 31.25 shares of common stock. Other provisions of the preferred stock concern preference in liquidation, voting rights, election of directors and issuance of new or additional preferred shares.

Note 5 - New Preferred Stock:

The Company is authorized to issue 60,000 shares of New Preferred Stock, par value $50 a share. The New Preferred Stock is issuable in one or more series.

The Board of Directors of the Company is authorized to fix the number of shares of New Preferred Stock constituting each such series and to fix, from time-to-time, the stated value per share (but not below the par value thereof), dividend rights, dividend rates, conversion rights and prices, voting rights, rights and terms of redemption, redemption prices, liquidation preferences and similar matters with respect to any wholly unissued series of New Preferred Stock; provided, however, that as long as there are shares of the Convertible Preferred Stock outstanding; unless seventy-five percent of the Convertible Preferred Stock shall consent thereto, the Board of Directors may not fix any of such rights, prices, terms or similar matters in any manner so as to adversely affect any of the powers, preferences, rights, qualifications, limitations or restrictions of the Convertible Preferred Stock or cause the rights on liquidation or dividends on the New Preferred Stock to rank prior to the rights on liquidation or dividends of the Convertible Preferred Stock.

During 1974, the Company sold 6,100 shares of its New Preferred Stock in a private placement. The rights, preferences and privileges of this series New Preferred Stock provide for an 8% dividend ($4.00 per share) each year; convertible into Common Stock at $1.00 per share; redemptive rights at par commencing three years from the date of issue; preference over the holders of Common Stock in the event the Company is liquidated; and voting rights, with the number of votes being based upon the number of shares of Common stock into which the New Preferred Stock is then convertible.

Note 6 - Common Stock:

Qualified Stock Options

Options have been granted to key employees under the Company's Qualified Stock Option Plan to purchase Common Stock of the Company at prices of not less than 100% of the fair market value at date of grant. The options become exercisable in varying installments and must be exercised not later than five years from date of grant.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 1974 AND 1973

(Continued)

Transactions during the year under the plan are summarized below:

	Shares under option		
	Number of shares	Exercise prices per share	Shares available for option
Balance, May 31, 1973	57,500	$1.75 - $6.50	2,100
Options canceled	8,750	$1.75 - $6.50	8,750
Balance, May 31, 1974	48,750	$1.75 - $6.00	10,850

At May 31, 1974, options for 34,760 shares were exercisable at prices ranging from $1.75 to $6.00.

Nonqualified Stock Options

In November 1973, the Company adopted a 1973 Nonqualified Stock Option Plan (the "1973 Nonqualified Plan") for selected officers and employees of the Company and its subsidiaries and members of medical staffs of facilities owned or operated by the Company.

The stock, subject to the options granted under the 1973 Nonqualified Plan, shall be shares of the Company's authorized but unissued or reacquired Common Stock, $.10 par value. The total number of shares of Common Stock which may be purchased through exercise of options granted under the 1973 Nonqualified Plan shall not exceed 75,000.

The option price per share for options granted under the Plan must be at least 85% of the fair market value of the Company's Common Stock on the date any such options are granted.

An option granted under the Plan shall not be exercisable (unless the Board of Directors determines otherwise) until one year from the date it is granted. Thereafter, each option shall be cumulatively exercisable in two approximately equal installments commencing one year and two years, respectively, from the date of grant. No options are exercisable after five years from the date of the grant of such options.

The Company has not granted any Nonqualified Stock options.

Common Stock Warrants and Rights

Warrant holders are entitled to purchase 25,561 shares of the Company's Common Stock at prices ranging from $5.60 to $11.00 per share. The warrants expire in 1975 and 1976.

An agreement related to a note payable in the amount of $100,000 provides that on any anniversary date of the note, up to one-third of the principal amount thereof then owing may be converted into shares of Common Stock of the Company at 75% of the average of the mean between the bid and ask prices at the close of each day's trading for all of the trading days of the month preceding the month within which this right to convert arises.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 1974 AND 1973

(Continued)

Note 7 - Equity in Earnings (loss) of Joint Venture:

On November 1, 1972, the Company entered into a joint venture agreement with Hospital Affiliates, Inc. (AHI) of Nashville, Tennessee. In accordance with the agreement, certain assets and liabilities were transferred by Calabasas Hospital Neuro-Psychiatric Center (Company) and Woodview Psychiatric Hospital (HAI) to Neuro Affiliates Company. the joint venture partnership. The operations of Woodview were merged into the operations of Calabasas. The combined operations are being managed by HAI. After refurbishing of the Woodview facility, the hospital was reopened in February 1973, and is being managed by the Company. The two companies share equally in the results of operations from the joint venture.

The financial position of the joint venture at May 31, 1974 and 1973, is summarized as follows:

	1974	1973
Current assets	$706,000	$405,000
Current liabilities	665,000	508,000
Working capital (deficiency)	$ 41,000	($103,000)
Total assets	$913,000	$640,000
Total liabilities	694,000	578,000
Partners' equity	$219,000	$ 62,000

Operations for the year ended May 31, 1974, and the seven months ended May 31, 1973, are summarized as follows:

	1974	1973
Revenues	$2,084,000	$ 893,000
Costs and expenses	1,927,000	910,000
Net earnings (loss) before taxes on income	$ 157,000	($ 17,000)

Note 8 - Gain on Sale of Investment:

In April 1973, the Company sold its investment in Advanced Health Systems, Inc. for cash and cancellation of debt. The Company has a five-year option to repurchase the stock.

Note 9 - Write-down of Facility:

In 1973, property owned by the Company was disposed of through a foreclosure sale by a trust deed holder. The facility had been previously written down in 1972 by $1,175,000. In 1973, the Company wrote down an additional $171,000 before an income tax credit of $89,000. The 1973 write-down included a provision for a claim relative to the trust deed and related legal expense amounting to $151,000. The claim was settled in 1974 for $160,000, including legal expenses.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 1974 AND 1973

(Continued)

Note 10 - Discontinued Operations:

In June of 1973, the Company entered into a contract to manage an acute general hospital in Anaheim, California. In May 1974, management of the Company determined that this project was not economically desirable and, therefore, exercised its option to cancel the contract. Additional losses, if any, resulting from closing down the operation would not materially affect the financial statements.

Operations for the period the facility was managed by the Company is summarized as follows:

Revenues	$577,000
Costs and expenses	596,000
Loss before income tax credit	(19,000)
Income tax credit	10,000
Net loss	($ 9,000)

Revenues, costs and expenses are not included in the Consolidated Statement of Earnings for the year ended May 31, 1974.

The Company discontinued operations of a psychiatric hospital on October 31, 1972. (See Note 7.) Operations for the five months ended October 31, 1972, resulted in a loss (after income tax credit of $15,000) of $14,000.

Note 11 - Reserve for Litigation and Claims:

At May 31, 1974, all material lawsuits and claims filed against the Company have been settled. In the opinion of management, adequate provision has been made for remaining litigation and claims.

Note 12 - Lease Commitments:

The Company has entered into leases for both facilities and furniture and equipment. The facilities leases provide that the Company pay the property taxes, insurance and maintenance expenses. The majority of the furniture and equipment leases contain purchase options. Accordingly, these leases have been capitalized by the Company. The remaining equipment leases are not significant and, therefore, are not included herein.

The total facilities rental expense for the two years ended May 31, 1974 and 1973, was as follows:

	1974	1973
Continuing operations	$388,000	$375,000
Discontinued operations	36,000	74,000
	$424,000	$449,000

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 1974 AND 1973

(Continued)

In addition, amortization of leasehold costs of $29,000, less amortization of a deferred gain on sale and leaseback of property of $7,000 was charged to operations in 1974 and 1973.

Minimum annual rental commitments as of May 31, 1974, for all noncancellable financing leases of facilities through the dates of expiration are as follows:

1975 - $584,000	1978 - $584,000	1985 - 1989 - $2,188,000
1976 - $584,000	1979 - $563,000	1990 - 1994 - $1,738,000
1977 - $584,000	1980 - 1984 - $2,712,000	Remaining - $ 684,000

The above commitments include $178,000 annual rent payable through 1996, which is reimbursed to the Company under provisions of a joint venture agreement.

The present value of minimum lease commitments applicable to all noncancellable facilities financing leases at May 31, 1974 and 1973, is $3,467,000 and $3,422,000, respectively. The weighted average interest rate (based on present value) for all financing leases is 7.7% for 1974 and 1973, and the range of interest is 6.5% - 9.3% for 1974 and 6.5% - 9.0% for 1973.

If all financing leases were capitalized and the related property rights were amortized on a straight-line basis and interest was accrued on the basis of the present value of the leases, earnings before extraordinary items for the two years ended May 31, 1974, would have been reduced by approximately $24,000 and $25,000, respectively. Net earnings for the two years ended May 31, 1974, would have been reduced by approximately $49,000 and $52,000, respectively. Amortization in the above computations was $200,000 in 1974, and $178,000 in 1973. Interest in these computations amounted to $226,000 in 1974, and $264,000 in 1973.

Note 13 - Taxes on Income:

The Company and its subsidiaries have federal income tax carryforwards for tax reporting purposes to offset future taxable income as follows:

Amount	Expiration date
$ 17,000	May 31, 1976
850,000	May 31, 1977
390,000	May 31, 1978
100,000	May 31, 1979
$1,357,000	

For financial reporting, the Company and its subsidiaries have federal income tax carryovers of approximately $1,539,000 available to offset future income. The difference in the amount of the tax loss carryforward is due principally to deferral for financial reporting of a gain on sale and leaseback of property which is recognized for tax reporting in the year the gain was realized.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 1974 AND 1973

(Continued)

The Company and its subsidiaries have investment tax credits carryforwards to reduce future taxes on income as follows:

Amount	Expiration date
$10,000	May 31, 1979
1,000	May 31, 1980
11,000	May 31, 1981
$22,000	

Note 14 - Subsequent Event:

The Company obtained a line of credit with a major bank in June 1974. Loans will bear interest at approximately 14% per annum and are collateralized by accounts receivable. This borrowing replaces a previous line of credit that was collateralized by accounts receivable and bore interest at the rate of 20% per annum, based on a prime rate of 7%.

COMPREHENSIVE CARE CORPORATION

BALANCE SHEET

	May 31 1974	May 31 1973
ASSETS		
CURRENT ASSETS:		
Cash (including restricted balances of $10,000 - 1974 and $8,000 - 1973)	$ 87,000	$ 47,000
Accounts receivable, less allowance for doubtful accounts of $24,000 - 1974 and $5,000 - 1973 (Schedule XII)	218,000	88,000
Prepaid expenses and supplies	72,000	64,000
TOTAL CURRENT ASSETS	377,000	199,000
DEFICIENCY IN ASSETS OF SUBSIDIARIES - equity method (Schedule III)	(440,000)	(1,200,000)
OTHER ASSETS:		
Receivable from wholly-owned subsidiaries (Schedule IV)	831,000	965,000
Notes receivable		239,000
Other	20,000	17,000
	851,000	1,221,000
PROPERTY, PLANT AND EQUIPMENT, at cost, substantially pledged (Notes 1, 3 and 15 and Schedules V and VI):		
Land	210,000	210,000
Buildings and improvements	664,000	658,000
Furniture and equipment	352,000	227,000
Leasehold improvements	53,000	59,000
	1,279,000	1,154,000
Less accumulated depreciation and amortization	(183,000)	(142,000)
	1,096,000	1,012,000
COST IN EXCESS OF NET ASSETS OF PURCHASED BUSINESSES	517,000	517,000
	$2,401,000	$1,749,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ 9,000	$ -
Accounts payable and accrued expenses (Note 17)	386,000	271,000
Long-term debt due within one year (Note 3)	139,000	90,000
TOTAL CURRENT LIABILITIES	534,000	361,000
RESERVE FOR LITIGATION AND CLAIMS (Note 11)	60,000	440,000
LONG-TERM DEBT DUE AFTER ONE YEAR (Note 3)	902,000	725,000
COMMITMENTS (Note 12)		
STOCKHOLDERS' EQUITY:		
Capital stock:		
Convertible Preferred Stock, par value $100 a share; authorized, 250 shares; issued and outstanding, 250 shares (Note 4)	25,000	25,000
New Preferred Stock, par value $50 a share; authorized, 60,000 shares; 8% Convertible Series; issued and outstanding, 6,100 shares (Note 5)	305,000	
Common Stock, par value $.10 a share; authorized, 2,000,000 shares; issued and outstanding, 938,682 shares - 1974 and 913,682 shares - 1973 (Note 6)	94,000	91,000
Additional paid-in capital	1,486,000	1,482,000
Deficit	(1,005,000)	(1,375,000)
	905,000	223,000
	$2,401,000	$1,749,000

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION

STATEMENT OF EARNINGS

	Year ended May 31 1974	1973*
REVENUES:		
Patient care (Note 2)	$ 829,000	$758,000
Other	91,000	75,000
	920,000	833,000
COSTS AND EXPENSES:		
Operating	557,000	529,000
General and administrative	590,000	177,000
Interest	108,000	107,000
Depreciation	50,000	46,000
	1,305,000	859,000
LOSS BEFORE INCOME TAX CREDIT, EQUITY IN NET EARNINGS OF SUBSIDIARIES AND EXTRAORDINARY ITEMS	(385,000)	(26,000)
INCOME TAX CREDIT	196,000	12,000
	(189,000)	(14,000)
LOSS FROM DISCONTINUED OPERATIONS, net of related income tax credit (Note 10)	(9,000)	
LOSS BEFORE EQUITY IN NET EARNINGS OF SUBSIDIARIES AND EXTRAORDINARY ITEMS	(198,000)	(14,000)
EQUITY IN NET EARNINGS OF SUBSIDIARIES, exclusive of extraordinary items	368,000	51,000
EARNINGS BEFORE EXTRAORDINARY ITEMS	170,000	37,000
EXTRAORDINARY ITEMS:		
Income tax reduction obtained by utilization of net operating loss carryforward (Note 13)	200,000	123,000
Gain on sale of investment, net of related taxes on income of $259,000 (Note 8)		473,000
Write-down of facility, net of related income tax credit of $89,000 (Note 9)		(82,000)
Settlement of litigation and claims and provision for pending litigation and claims, net of related income tax credit of $67,000 (Note 11)		(62,000)
	200,000	452,000
NET EARNINGS	$ 370,000	$489,000

*Restated to conform to 1974 classifications.

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended May 31 1974	1973
SOURCE OF FUNDS:		
Operations:		
Earnings exclusive of extraordinary items	$170,000	$ 37,000
Add item not requiring outlay of (providing) working capital in the current period:		
Depreciation, straight-line method	53,000	46,000
Equity in (earnings) of subsidiaries	(760,000)	(63,000)
Funds provided from (required for) operations exclusive of extraordinary items	(537,000)	20,000
Extraordinary items	200,000	452,000
Items not requiring outlay of working capital		122,000
Amount of net extraordinary items taken by subsidiary		54,000
	200,000	628,000
Funds provided from operations, including extraordinary items	(337,000)	648,000
Net proceeds from sale of new preferred stock	299,000	
Sale and retirement of property, plant and equipment	1,000	
Book value of investment sold		116,000
Additions to long-term debt	58,000	69,000
Decrease in notes receivable		13,000
Decrease (increase) in deferred costs, deposits and other assets	(3,000)	15,000
Decrease in amounts due from subsidiaries	134,000	
Settlement of litigation and claims by cash payments, issuance of common stock and cancellation of notes receivable and payable	107,000	
TOTAL FUNDS PROVIDED	$259,000	$861,000
APPLICATION OF FUNDS:		
Increase in amounts due from subsidiaries	$ -	$152,000
Purchase of property, plant and equipment	138,000	
Decrease in long-term debt	116,000	612,000
Cancellation of common stock previously issued		19,000
Increase in working capital	5,000	78,000
TOTAL FUNDS USED	$259,000	$861,000
SUMMARY OF INCREASE (DECREASE) IN WORKING CAPITAL:		
Current assets:		
Cash	$ 40,000	($141,000)
Accounts receivable	130,000	21,000
Prepaid expenses and supplies	8,000	11,000
	178,000	(109,000)
Current liabilities:		
Short-term borrowings	9,000	(56,000)
Accounts payable and accrued expenses	115,000	(129,000)
Long-term debt due within one year	49,000	(2,000)
	173,000	(187,000)
INCREASE IN WORKING CAPITAL	$ 5,000	$ 78,000

See notes to consolidated financial statements.

NEURO AFFILIATES COMPANY
(A JOINT VENTURE)

BALANCE SHEET

	May 31 1974	May 31 1973 (Note 3)
ASSETS		
CURRENT ASSETS:		
Cash	$ 67,000	$105,000
Accounts receivable, less allowance for doubtful accounts of $62,000 (1974) and $45,000 (1973)	562,000	242,000
Prepaid expenses, supplies and other assets	77,000	58,000
TOTAL CURRENT ASSETS	706,000	405,000
EQUIPMENT AND IMPROVEMENTS, at cost (Note 2):		
Furniture and equipment	168,000	161,000
Leasehold improvements	59,000	55,000
Construction in progress	2,000	2,000
	229,000	218,000
Less accumulated depreciation and amortization	(37,000)	(13,000)
	192,000	205,000
DEFERRED COSTS	15,000	30,000
	$913,000	$640,000
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Notes payable to affiliated company (Note 5)	$125,000	$125,000
Accounts payable and accrued expenses	109,000	139,000
Estimated amounts due under insurance programs (Note 4)	61,000	20,000
Amounts due affiliated companies, net (Note 5)	331,000	186,000
Current portion of long-term debt	39,000	38,000
TOTAL CURRENT LIABILITIES	665,000	508,000
LONG-TERM DEBT, less portion due within one year included in current liabilities (Note 2)	29,000	70,000
TOTAL LIABILITIES	694,000	578,000
PARTNERS' CAPITAL	219,000	62,000
	$913,000	$640,000

See notes to financial statements.

NEURO AFFILIATES COMPANY
(A JOINT VENTURE)

STATEMENT OF OPERATIONS

	Year ended May 31, 1974	From November 1, 1972, (inception) to May 31, 1973 (Note 3)
REVENUES:		
Patient care	$2,062,000	$885,000
Other	22,000	8,000
	2,084,000	893,000
COSTS AND EXPENSES:		
Operating (Note 5)	1,512,000	682,000
General and administrative	347,000	227,000
Interest (Note 5)	68,000	1,000
	1,927,000	910,000
NET INCOME (LOSS)	$ 157,000	($ 17,000)

See notes to financial statements.

NEURO AFFILIATES COMPANY
(A JOINT VENTURE)

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended May 31, 1974	From November 1, 1972, (inception) to May 31, 1973 (Note 3)
SOURCE OF FUNDS:		
Operations:		
Net income (loss)	$157,000	($ 17,000)
Items not requiring working capital:		
Depreciation	24,000	13,000
Amortization	15,000	
Funds provided by (used in) operations	196,000	(4,000)
Initial capital contribution by Hospital Affiliates, Inc.:		
Working capital		37,000
Other assets		2,000
Initial capital contribution by Comprehensive Care Corporation:		
Working capital		(76,000)
Equipment and improvements		209,000
Long-term debt, less portion due within one year included in working capital contributed		(93,000)
Other		1,000
	$196,000	$ 76,000
APPLICATION OF FUNDS:		
Decrease in long-term debt	$ 41,000	$ 23,000
Deferral of preoperating costs		28,000
Purchase of equipment and improvements	11,000	10,000
Assets and liabilities other than working capital initially contributed by joint venture partners:		
Equipment and improvements		209,000
Other assets		2,000
Long-term debt, less portion due within one year included in working capital contributed		(93,000)
Increase (decrease) in working capital	144,000	(103,000)
	$196,000	$ 76,000
SUMMARY OF INCREASE (DECREASE) IN WORKING CAPITAL:		
Current assets:		
Cash	($ 38,000)	$105,000
Accounts receivable, net	320,000	242,000
Prepaid expenses, supplies and other assets	19,000	58,000
	301,000	405,000
Current liabilities:		
Notes payable to affiliated company		125,000
Accounts payable and accrued expenses	(30,000)	139,000
Estimated amounts due under insurance programs	41,000	20,000
Amounts due affiliated companies, net	145,000	186,000
Current portion of long-term debt	1,000	38,000
	157,000	508,000
INCREASE (DECREASE) IN WORKING CAPITAL	$144,000	($103,000)

See notes to financial statements.

NEURO AFFILIATES COMPANY
(A JOINT VENTURE)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MAY 31, 1974, AND
FROM NOVEMBER 1, 1972, (INCEPTION) TO MAY 31, 1973

Note 1 - Summary of Significant Accounting Policies:

Basis of Presentation

The financial statements include only those assets, liabilities and results of operations of the partners which relate to the business of Neuro Affiliates Company. No provision has been made for federal and state income taxes since these taxes are the personal responsibility of the partners.

Depreciation Policy

The cost of equipment and leasehold improvements is depreciated or amortized over the estimated useful lives of the assets, using the straight-line method of depreciation.

Deferred Costs

Deferred costs include interest on long-term contracts, which is amortized on a straight-line basis, and preopening costs on Crossroads Hospital, which is amortized on a straight-line basis over three years beginning January 1974.

Note 2 - Long-term Debt:

Long-term debt consists of conditional sales contracts amounting to $68,000 (net of financing charges included in the face amount of the contracts of $39,000, which are collateralized by equipment. The approximate maturities of the long-term debt are $39,000 in 1975 and $29,000 in 1976.

Note 3 - Formation of Joint Venture:

On November 1, 1972, Hospital Affiliates, Inc. (HAI) of Nashville, Tennessee, and Comprehensive Care Corporation (Comp Care) of Newport Beach, California, entered into an agreement to form a joint venture, Neuro Affiliates Company (NAC). In accordance with the agreement, certain assets and liabilities were transferred by Calabasas Hospital, Neuro-Psychiatric Center (Comp Care) and Woodview Psychiatric Hospital (HAI) to the Company. The partners' contributions were established at approximately $39,500 each. The operations of Woodview were merged with the operations of Calabasas. The combination of these operations (Woodview-Calabasas) is being managed by HAI. The Woodview facility was refurnished and reopened during February 1973, and is being managed by Comp Care. The two partners will share equally in the results of the joint venture operations.

NEURO AFFILIATES COMPANY
(A JOINT VENTURE)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MAY 31, 1974, AND
FROM NOVEMBER 1, 1972, (INCEPTION) TO MAY 31, 1973

(Continued)

Note 4 - Estimated Amounts Due Under Insurance Programs:

A substantial amount of the revenue of the Company is provided under federal, state and Blue Cross insurance programs. Allowable revenue under the programs is determined annually by fiscal intermediaries administering the programs based on cost reports filed by the Company. The Company is current with the filing of such cost reports; however, certain cost reports have not been audited by the intermediaries, and other audited reports are under appeal by the Company. The Company believes that adequate reserves have been provided in the financial statements for these contingencies.

Note 5 - Transactions with Partners:

Rentals

The Company reimburses annual rentals of $214,000 to Comprehensive Care Corp. and $67,000 to Woodview Hospital, a subsidiary of Hospital Affiliates, Inc. for the use of hospital facilities.

Management Fees

Operating expense includes $27,000 paid to Comprehensive Care Corp., and $73,000 paid to Hospital Affiliates, Inc. for administrative and other services.

Interest Expense

Interest expense includes $33,000 paid to Hospital Affiliates, Inc. for interest on notes payable of $125,000 and cash advances of $103,000, at 3% above the prime rate.

Management is of the opinion that these transactions were executed for a consideration substantially equivalent to that which would have been obtained between wholly unrelated interests.

ADDITIONAL NOTES AND SCHEDULES

FURNISHED PURSUANT

TO THE REQUIREMENTS OF FORM 10-K

TOUCHE ROSS & CO.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

ADDITIONAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 1974 AND 1973

Note 15 - Property, Plant and Equipment:

Depreciation is provided on the straight-line method based upon the following estimated lives of the assets: buildings and improvements 6 to 40 years, furniture and equipment 3 to 12 years and leasehold improvements 3 to 25 years. Depreciation of $3,000 and $9,000 has been included in losses of discontinued operations for the years ended May 31, 1974 and 1973, respectively.

Expenditures for repairs and maintenance are charged against income when made. The costs of renewals and betterments are charged to the asset accounts. When assets are retired or sold, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is credited or charged to income.

Substantially all the plant and equipment is pledged to secure deeds of trust and equipment purchase contracts.

Note 16 - Supplementary Income Statement Information:

The following amounts were charged to costs and expenses:

	Company		Consolidated	
	1974	1973	1974	1973
Maintenance and repairs	$19,000	$32,000	$ 55,000	$ 93,000
Depreciation and amortization of property, plant and equipment	$50,000	$46,000	$ 98,000	$ 92,000
Amortization of intangible assets	$ 1,000	$ 1,000	$ 29,000	$ 30,000
Taxes, other than income taxes:				
Payroll	$40,000	$31,000	$164,000	$124,000
Real and personal property	$35,000	$34,000	$ 90,000	$ 87,000
Other	$ 3,000	$ 2,000	$ 6,000	$ 5,000
Rents	$96,000	$79,000	$417,000	$391,000

The following amounts were charged to discontinued operations:

	Company		Consolidated	
	1974	1973	1974	1973
Maintenance and repairs	$ 6,000	$ -	$ [illegible],000	$ 7,000
Depreciation and amortization of property, plant and equipment	$ 3,000	$ -	$ 3,000	$ 9,000
Taxes, other than income taxes:				
Payroll	$24,000	$ -	$ 24,000	$ 10,000
Real and personal property	$10,000	$ -	$ 10,000	$ 18,000
Rents	$41,000	$ -	$ 41,000	$ 75,000

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

ADDITIONAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 1974 AND 1973

(Continued)

The following amounts were charged to extraordinary items:

	Consolidated 1973
Taxes, other than income taxes:	
Real and personal property	$7,000
Other	$1,000

There were no royalties or research and development costs paid during the above years. Advertising costs paid during the above years were less than 1% of total revenue and accordingly not reported.

Note 17 - Accounts Payable and Accrued Expenses:

Accounts payable and accrued expenses include salaries and wages in the following amounts:

Company		Consolidated	
1974	1973	1974	1973
$20,000	$13,000	$61,000	$37,000

COMPREHENSIVE CARE CORPORATION

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES

YEAR ENDED MAY 31, 1974

Name of issuer and description of investment	Balance at beginning of period: Number of shares	Balance at beginning of period: Amount	Additions: Equity taken up in earnings (loss) of affiliates for the period	Additions: Other: Number of shares	Additions: Other: Amount	Deductions: Distribution of earnings (loss) by affiliates in which earnings (loss) were taken up	Deductions: Other: Number of shares	Deductions: Other: Amount	Balance at end of period: Number of shares	Balance at end of period: Amount	Dividends received during the period from investments not accounted for by the equity method
CONSOLIDATED SUBSIDIARIES:											
NPHS, Inc. common stock, par value $10 a share	320	($1,313,000)	$744,000	-	$ -	$ -	-	$ -	320	($ 569,000)	$ -
Terracina Convalescent Hospital & Home, Inc. common stock, par value $100 a share	50	(79,000)	55,000						50	(24,000)	
Fort Worth Neuro-Psychiatric Hospital, Inc. common stock, par value $1 a share	10,002	192,000	(4,000)						10,002	188,000	
CAREUNIT, Inc. common stock, par value $1 a share			(27,000)	500	1,000 (9,000)(a)				500	(35,000)	
		($1,200,000)	$768,000		($ 8,000)	$ -		$ -		($ 440,000)	$ -

(a) Deficit at May 31, 1973, of a division of the parent company which incorporated during 1974.

SCHEDULE III

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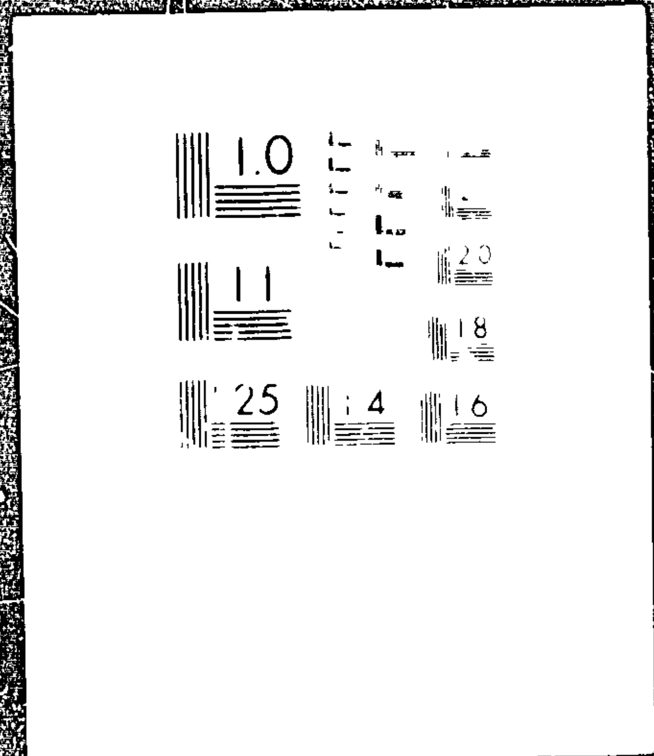
10-K

FOR FISCAL YEAR ENDING

5-31-74



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SCHEDULE III
(Continued)

COMPREHENSIVE CARE CORPORATION

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES

YEAR ENDED MAY 31, 1973

(Continued)

Name of issuer and description of investment	Balance at beginning of period: Number of shares	Balance at beginning of period: Amount	Additions: Equity taken up in earnings (loss) of affiliates for the period	Additions: Other: Number of shares	Additions: Other: Amount	Deductions: Distribution of earnings (loss) by affiliates in which earnings (loss) were taken up	Deductions: Other: Number of shares	Deductions: Other: Amount	Balance at end of period: Number of shares	Balance at end of period: Amount	Dividends received during the period from investments not accounted for by the equity method
CONSOLIDATED SUBSIDIARIES:											
NPHS, Inc. common stock, par value $10 a share	320	($1,382,000)	$ 69,000	-	$ -	$ -	-	$ -	320	($1,313,000)	$ -
Terracina Convalescent Hospital & Home, Inc. common stock, par value $100 a share	50	(66,000)	(13,000)						50	(79,000)	
Raleigh Hills Hospital, Inc. common stock, no par value	300	80,000					300	80,000(a)			
Fort Worth Neuro-Psychiatric Hospital, Inc. common stock, par value $1 a share	10,002	185,000	7,000						10,002	192,000	
		($1,183,000)	$ 63,000		$ -	$ -		$ 80,000		($1,200,000)	$ -
UNCONSOLIDATED SUBSIDIARY:											
Advanced Health Systems, Inc. common stock, no par value (b)		$ -	$ -	490,000	$116,000	$ -	490,000	$116,000		$ -	$ -

(a) Sold June 1, 1972.

(b) See Note 8 of Notes to Consolidated Financial Statements.

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COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES

YEARS ENDED MAY 31, 1974 AND 1973

Name of issuer and description of investment	Balance at beginning of period		Additions			Deductions					Dividends received during the period from investments not accounted for by the equity method
			Equity taken up in earnings (loss) of affiliates for the period	Other		Distribution of earnings (loss) by affiliates in which earnings (loss) were taken up	Other		Balance at end of period		
	Percent of ownership	Amount		Percent of ownership	Amount		Percent of ownership	Amount	Percent of ownership	Amount	
YEAR ENDED MAY 31, 1974:											
NPHS, Inc. investment in joint venture in Neuro Affiliates Company, a partnership	50%	$31,000	$78,000 (a)	-	$ -	$ -	-	$ -	50%	$109,000	$ -
YEAR ENDED MAY 31, 1973:											
NPHS, Inc. investment in joint venture in Neuro Affiliates Company, a partnership	-	$ -	($ 8,000) (a)	-	$39,000	$ -	-	$ -	50%	$ 31,000	$ -

(a) Share of joint venture earnings (loss) before taxes on income.

SCHEDULE III (Continued)

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COMPREHENSIVE CARE CORPORATION

INDEBTEDNESS OF AND TO AFFILIATES

YEARS ENDED MAY 31, 1974 AND 1973

Name of affiliate	Balance receivable (payable) at beginning of period	Balance receivable (payable) at end of period
YEAR ENDED MAY 31, 1974:		
Amounts eliminated in consolidation:		
NPHS, Inc.	$1,240,000	$ 962,000
Terracina Convalescent Hospital & Home, Inc.	(41,000)	(52,000)
Fort Worth Neuro-Psychiatric Hospital, Inc.	(234,000)	(224,000)
CAREUNIT, Inc.		145,000
Total eliminated in consolidation	965,000	831,000
Amount not eliminated in consolidation:		
Neuro Affiliates Company (a)	42,000	23,000
Total indebtedness of and to affiliates	$1,007,000	$ 854,000
YEAR ENDED MAY 31, 1973:		
Amounts eliminated in consolidation:		
NPHS, Inc.	$ 985,000	$1,240,000
Terracina Convalescent Hospital & Home, Inc.	(18,000)	(41,000)
Raleigh Hills Hospital, Inc.	95,000	
Fort Worth Neuro-Psychiatric Hospital, Inc.	(249,000)	(234,000)
Total eliminated in consolidation	813,000	965,000
Amount not eliminated in consolidation:		
Neuro Affiliates Company (a)		42,000
Total indebtedness of and to affiliates	$ 813,000	$1,007,000

(a) Included in accounts receivable on balance sheet of Comprehensive Care Corporation and on balance sheet of Comprehensive Care Corporation and subsidiaries.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

PROPERTY, PLANT AND EQUIPMENT

YEARS ENDED MAY 31, 1974 AND 1973

Description	Balance at beginning of period	Additions at cost	Reductions: Sales, retirements and abandonments	Reductions: Other	Balance at end of period
COMPANY:					
Year ended May 31, 1974:					
Land	$ 210,000	$ -	$ -	$ -	$ 210,000
Buildings and improvements	658,000	6,000			664,000
Furniture and equipment	227,000	126,000	1,000		352,000
Leasehold improvements	59,000	6,000	12,000		53,000
	$1,154,000	$138,000	$ 13,000	$ -	$1,279,000
Year ended May 31, 1973:					
Land	$ 210,000	$ -	$ -	$ -	$ 210,000
Buildings and improvements	656,000	2,000			658,000
Furniture and equipment	223,000	4,000			227,000
Leasehold improvements	58,000	1,000			59,000
	$1,147,000	$ 7,000	$ -	$ -	$1,154,000
CONSOLIDATED:					
Year ended May 31, 1974:					
Land	$ 216,000	$ -	$ -	$ -	$ 216,000
Buildings and improvements	658,000	6,000			664,000
Furniture and equipment	589,000	156,000	11,000		734,000
Leasehold improvements	174,000	54,000	17,000		211,000
	$1,637,000	$216,000	$ 28,000	$ -	$1,825,000
Year ended May 31, 1973:					
Land	$ 616,000	$ -	$ 373,000	$ 27,000(a)	$ 216,000
Buildings and improvements	1,328,000	2,000	672,000		658,000
Furniture and equipment	1,237,000	17,000	410,000	255,000(a)	589,000
Leasehold improvements	357,000	6,000		189,000(a)	174,000
	$3,538,000	$ 25,000	$1,455,000	$471,000	$1,637,000

(a) Reductions resulting from sale of a wholly-owned subsidiary and transfers to a joint venture.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

YEARS ENDED MAY 31, 1974 AND 1973

Description	Balance at beginning of period	Additions charged to costs and expenses	Reductions: Sales, retirements and abandonments	Reductions: Other	Balance at end of period
COMPANY:					
Year ended May 31, 1974:					
Buildings and improvements	$ 62,000	$ 18,000	$ -	$ -	$ 80,000
Furniture and equipment	63,000	28,000			91,000
Leasehold improvements	17,000	7,000	12,000		12,000
	$142,000	$ 53,000	$ 12,000	$ -	$183,000
Charged to:					
Depreciation and amortization		$ 50,000			
Discontinued operations		3,000			
		$ 53,000			
Year ended May 31, 1973:					
Buildings and improvements	$ 45,000	$ 17,000	$ -	$ -	$ 62,000
Furniture and equipment	42,000	21,000			63,000
Leasehold improvements	9,000	8,000			17,000
	$ 96,000	$ 46,000	$ -	$ -	$142,000
CONSOLIDATED:					
Year ended May 31, 1974:					
Buildings and improvements	$ 62,000	$ 18,000	$ -	$ -	$ 80,000
Furniture and equipment	239,000	64,000	9,000		294,000
Leasehold improvements	61,000	19,000	17,000		63,000
	$362,000	$101,000	$ 26,000	$ -	$437,000
Charged to:					
Depreciation and amortization		$ 98,000			
Discontinued operations		3,000			
		$101,000			
Year ended May 31, 1973:					
Buildings and improvements	$ 72,000	$ 17,000	$ 27,000	$ -	$ 62,000
Furniture and equipment	280,000	64,000	62,000	43,000(a)	239,000
Leasehold improvements	54,000	20,000		13,000(a)	61,000
Unallocated	200,000		200,000		
	$606,000	$101,000	$289,000	$56,000	$362,000
Charged to:					
Depreciation and amortization		$ 92,000			
Discontinued operations		9,000			
		$101,000			

(a) Reductions resulting from sale of a wholly-owned subsidiary and transfers to a joint venture.

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COMPREHENSIVE CARE CORPORATION

INTANGIBLE ASSETS, DEFERRED RESEARCH AND DEVELOPMENT EXPENSES, PREOPERATING EXPENSES AND SIMILAR DEFERRALS

YEARS ENDED MAY 31, 1974 AND 1973

Classification	Balance at beginning of period	Additions at cost	Deductions: Charged to costs and expenses	Deductions: Charged to other accounts	Balance at close of period
COMPANY:					
Year ended May 31, 1974:					
Cost in excess of net assets of purchased businesses	$517,000	$ -	$ -	$ -	$517,000
Year ended May 31, 1973:					
Cost in excess of net assets of purchased businesses	$517,000				$517,000
CONSOLIDATED:					
Year ended May 31, 1974:					
Cost in excess of net assets of purchased businesses	$517,000				$517,000
Lease acquisition costs	$391,000		$29,000		$362,000
Year ended May 31, 1973:					
Cost in excess of net assets of purchased businesses	$517,000				$517,000
Lease acquisition costs	$420,000		$29,000		$391,000

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TOUCHE ROSS & CO.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

YEARS ENDED MAY 31, 1974 AND 1973

Description	Balance at beginning of period	Additions: Charged to costs and expenses: Revenue	Additions: Charged to costs and expenses: Discontinued operations	Additions: Charged to other accounts (a)	Deductions: Write-off of accounts	Deductions: Other	Balance at end of period
Allowance for doubtful accounts (deducted from accounts receivable in the balance sheet):							
Company:							
Year ended May 31, 1974	$ 5,000	$ 1,000	$25,000	$ 6,000	$ 13,000	$ -	$ 24,000
Year ended May 31, 1973	$ 7,000	$ 9,000	$ -	$ -	$ 11,000	$ -	$ 5,000
Consolidated:							
Year ended May 31, 1974	$135,000	$130,000	$25,000	$18,000	$121,000	$ -	$187,000
Year ended May 31, 1973	$203,000	$125,000	$11,000	$24,000	$117,000	$111,000(b)	$135,000

(a) Amounts included in this column are recoveries on accounts previously charged to this reserve.

(b) Amount includes:

Elimination resulting from sale of a subsidiary	$ 85,000
Transfer to a joint venture	26,000
	$111,000

See Note 7 of notes to consolidated financial statements.

SCHEDULE XII

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Coldwell, Banker
AND COMPANY

LEASE

OFFICE BUILDING

PARTIES

THIS LEASE made this 14th day of August, 19 73 between, JPH ENTERPRISES as Lessor, and COMPREHENSIVE CARE CORPORATION, as Lessee.

PREMISES

WITNESSETH:

Lessor does hereby lease to Lessee and Lessee hereby hires from Lessor those certain premises (hereinafter called "premises") outlined in red on Exhibit A attached hereto and hereby by reference thereto made a part hereof, said premises being situated on the second (2nd) floor of that certain building known as the John P. Hooten building, located at 230 Newport Center Drive, Newport Beach, California (approximately 5,337 sq.ft.) above the promenade floor

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Said letting and hiring is upon and subject to the terms, covenants and conditions herein set forth, and the Lessee covenants as a material part of the consideration for this Lease to keep and perform each and all of said terms, covenants and conditions by it to be kept and performed and that this Lease is made upon the condition of such performance.

PURPOSE

1

The premises are to be used for general office purposes and for no other purpose without the written consent of Lessor.

TERM

2

The term of this Lease shall be for five (5) yrs., two (2) mos. ~~for when Tenant takes occupancy for the purpose of doing business.~~ commencing on the fifteenth (15th) day of October, 1973, and ending on the fourteenth (14th) day of December, 1978 ~~, or 5 years, two months after the commencement day of this lease.~~

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POSSESSION

3

If the Lessor, for any reason whatsoever, cannot deliver possession of the said premises to Lessee at the commencement of the term hereof, this Lease shall not be void or voidable, nor shall Lessor be liable to Lessee for any loss or damage resulting therefrom, but in that event all rent shall be abated during the period between the commencement of the said term and the time when Lessor delivers possession.

RENT

4

Lessee agrees to pay to Lessor as rental for the premises the sum of $ 3,469.00----------- on or before the first day of the ~~first~~ third full calendar month of the term hereof and a like sum on or before the first day of each and every successive calendar month thereafter during the term hereof. In the event the term of this Lease commences on a day other than the first day of a calendar month, then upon the day of commencement of the term hereof Lessee shall pay to Lessor as rental for the period from the date of commencement to the first day of the next succeeding calendar month that proportion of said monthly rental which the number of days between said day of commencement and the first day of said next succeeding calendar month bears to 30. In the event the term of this Lease ends on a day other than the last day of a calendar month, then upon the first day of the last calendar month of the term hereof Lessee shall pay to Lessor as rental for the period from said first day of

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EXHIBIT 1

the last calendar month to and including the last day of the term hereof that proportion of the monthly rental which the number of days between said first day of said last calendar month and the last day of the term of said Lease bears to 30.

Said rental shall be paid to Lessor, without deduction or offset in lawful money of the United States of America at the Office of the Building, or to such other person or at such other place as Lessor may from time to time designate in writing.

RENTAL ADJUSTMENTS 5

For the purpose of this Paragraph, the following terms are defined as follows:

Base Year:	The calendar year in which this lease term commences (provided, however, that the Base Year shall in no event be earlier than the first full calendar year following the date of initial occupancy by the first occupant of said building).
Comparison Year:	Each calendar year of the term after the Base Year.
Direct Expenses:	All direct costs of operation and maintenance, as determined by standard accounting practices, shall include the following costs by way of illustration, but not be limited to: real property taxes and assessments; rent taxes, whether assessed against the Lessor or assessed against the Lessees and collected by the Lessor or both; water and sewer charges; insurance premiums: utilities; janitorial services; labor; costs incurred in the management of the building, if any; air-conditioning; elevator maintenance; supplies; materials; equipment; and tools. ("Direct Expenses" shall not include depreciation on the building of which the premises are a part or equipment therein, loan payments, executive salaries or real estate brokers' commissions.)

If the Direct Expenses paid or incurred by the Lessor for the Comparison Year on account of the operation or maintenance of the building of which the premises are a part are in excess of the Direct Expenses paid or incurred for the Base Year, then the Lessee shall pay 19.13 % of the increase. This percentage is that portion of the total Net Rentable Area of the building occupied by the Lessee hereunder. Lessor shall endeavor to give to Lessee on or before the first day of March of each year following the respective Comparison Year a statement of the increase in rent payable by Lessee hereunder, but failure by Lessor to give such statement by said date shall not constitute a waiver by Lessor of its right to require an increase in rent. Upon receipt of the statement for the first Comparison Year, Lessee shall pay in full the total amount of increase due for the first Comparison Year, and in addition for the then current year the amount of any such increase shall be used as an estimate for said current year and this amount shall be divided into twelve (12) equal monthly installments and Lessee shall pay to Lessor, concurrently with the regular monthly rent payment next due following the receipt of such statement, an amount equal to one monthly installment multiplied by the number of months from January in the calendar year in which said statement is submitted to the month of such payment, both months inclusive. Subsequent installments shall be payable concurrently with the regular monthly rent payments for the balance of that calendar year and shall continue until the next Comparison Year's statement is rendered. If the next or any succeeding Comparison Year results in a greater increase in Direct Expenses, then upon receipt of a statement from Lessor, Lessee shall pay a lump sum equal to such total increase in Direct Expenses over the Base Year, less the total of the monthly installments of estimated increases paid in the previous calendar year for which comparison is then being made to the Base Year; and the estimated monthly installments to be paid for the next year following said Comparison Year shall be adjusted to reflect such increase. If in any Comparison Year the Lessee's share of Direct Expenses be less than the preceding year, then upon receipt of Lessor's statement, any overpayment made by Lessee on the monthly installment basis provided above shall be credited towards the next monthly rent falling due and the estimated monthly installments of Direct Expenses to be paid shall be adjusted to reflect such lower Direct Expenses for the most recent Comparison Year.

Even though the term has expired and Lessee has vacated from the premises, when the final determination is made of Lessee's share of Direct Expenses for the year in which this lease terminates, Lessee shall immediately pay any increase due over the estimated expenses paid and conversely any overpayment made in the event said expenses decrease shall be immediately rebated by Lessor to Lessee.

In the event any increase or decrease of the Direct Expenses of the building can be attributed to a substantial difference in occupancy levels for the Base Year and Comparison Year then the Direct Expenses for the Base Year shall be equitably adjusted to reflect those Direct Expenses which theoretically would have occurred had the building been occupied in the Base Year at approximately the same occupancy level as the Comparison Year, and furthermore both the Base Year and comparison year shall be projected to at least a 90% occupancy factor.

Notwithstanding anything contained in this Paragraph, the rental payable by Lessee shall in no event be less than the rent specified in Paragraph 4 hereof.
In no event will the rental rate be increased in excess of 5% in any one year.

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USES PROHIBITED

6

Lessee shall not do or permit anything to be done in or about the premises nor bring or keep anything therein which will in any way increase the existing rate of or affect any fire or other insurance upon the building or any of its contents, or cause a cancellation of any insurance policy covering said building or any part thereof or any of its contents. Lessee shall not do or permit anything to be done in or about the premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the building or injure or annoy them or use or allow the premises to be used for any improper, immoral, unlawful or objectionable purpose, nor shall Lessee cause, maintain or permit any nuisance in, on or about the premises. Lessee shall not commit or suffer to be committed any waste in or upon the premises.

COMPLIANCE WITH LAW

7

Lessee shall not use the premises or permit anything to be done in or about the premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall at its sole cost and expense promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force and with the requirements of any board of fire underwriters or other similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the premises, excluding structural changes not related to or affected by Lessee's improvements or acts. The judgment of any court of competent jurisdiction or the admission of Lessee in any action against Lessee, whether Lessor be a party thereto or not, that Lessee has violated any law, statute, ordinance or governmental rule, regulation or requirement, shall be conclusive of that fact as between Lessor and Lessee.

ALTERATIONS

Lessee *intends to make further addsitions or improvements however such ~~shall not make or suffer to be made any~~ alterations, additions or improvements to or of the premises or any part thereof *shall not be made without the written consent of Lessor first had and obtained* which consent shall not be unreasonably withheld and any alterations, additions or improvements to or of said premises, except movable furniture and trade fixtures, shall at once become a part of the realty and belong to Lessor. In the event Lessor consents to the making of any alterations, additions or improvements to the premises by Lessee, the same shall

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*which approval shall be impartial and shall not be unreasonably withheld.

be made by Lessee at Lessee's sole cost and expense and any contractor or person selected by Lessee to make the same must first be approved of in writing by Lessor,* Upon the expiration or sooner termination of the term Lessee shall, upon demand by Lessor, at Lessee's sole cost and expense, forthwith and with all due diligence remove any alterations, additions or improvements made by Lessee, designated by Lessor to be removed, and Lessee shall, forthwith and with all due diligence at its sole cost and expense, repair any damage to the premises caused by such removal, except and excluding however those partitions to be installed anytime during the term of the lease within that area cross-hatched in red on Exhibit B.

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REPAIR **9**

By entry hereunder Lessee accepts the premises as being in good, sanitary order, condition and repair. Lessee shall at Lessee's sole cost and expense keep the premises and every part thereof in good condition and repair, damage thereto by fire, earthquake, act of God or the elements excepted. Lessee hereby waiving all rights to make repairs at the expense of Lessor as provided by any law, statute or ordinance now or hereafter in effect. Lessee shall, upon the expiration or sooner termination of the term hereof, surrender the premises to Lessor in the same condition as when received, ordinary wear and tear and damage by fire, earthquake, act of God or the elements excepted. It is specifically understood and agreed that Lessor has no obligation and has made no promises to alter, remodel, improve, repair, decorate or paint the premises or any part thereof and that no representations respecting the condition of the premises or the building of which the premises are a part have been made by Lessor to Lessee except as specifically herein set forth.

ABANDONMENT **10**

Lessee shall not vacate or abandon the premises at any time during the term, and if Lessee shall abandon, vacate or surrender said premises, or be dispossessed by process of law, or otherwise, any personal property belonging to Lessee and left on the premises shall be deemed to be abandoned.

LIENS **11**

Lessee shall keep the premises and the property in which the premises are situated free from any liens arising out of any work performed, materials furnished or obligations incurred by Lessee.

ASSIGNMENT AND SUBLETTING **12**

Lessee shall not assign, transfer, mortgage, pledge, hypothecate or encumber this Lease, or any interest therein, and shall not sublet the said premises or any part thereof, or any right or privilege appurtenant thereto, or suffer any other person (the agents and servants of Lessee excepted) to occupy or use the said premises, or any portion thereof, without the written consent of Lessor first had and obtained, which consent shall not be unreasonably withheld, and a consent to one assignment, subletting, occupation or use by any other person shall not be deemed to be a consent to any subsequent assignment, subletting, occupation or use by another person. Any such assignment or subletting without such consent shall be void, and shall~~, at the option of Lessor, terminate this~~ Lease. This Lease shall not, nor shall any interest therein, be assignable as to the interest of Lessee by operation of law, without the written consent of Lessor.

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INDEMNIFICATION OF LESSOR **13**

Lessor shall not be liable to Lessee, and Lessee hereby waives all claims against Lessor, for any injury or damage to any person or property in or about the premises by or from any cause whatsoever,* and, without limiting the generality of the foregoing, whether caused by water leakage or any character from the roof, walls, basement or other portion of the premises or the building, or caused by gas, fire, oil, electricity or any cause whatsoever in, on or about the premises or the building or any part thereof.

*unless caused by Landlord's negligence.

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Lessee shall hold Lessor harmless from and defend Lessor against any and all claims or liability for any injury or damage to any person or property whatsoever: (1) occurring in, on or about the premises or any part thereof, and (2) occurring in, on or about any facilities (including, without prejudice to the generality of the term "facilities", elevators, stairways, passageways, hallways and parking areas), the use of which Lessee may have in conjunction with other tenants of the building, when such injury or damage* ~~can be~~ caused ~~in part or in whole~~ by the act, neglect, fault of or omission of any duty with respect to the same by Lessee, its agents, servants, employees, or invitees.

*was

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INSURANCE **14**

So long as their respective insurers so permit, Lessee and Lessor hereby mutually waive their respective rights of recovery against each other for any loss insured by fire, extended coverage and other property insurance policies existing for the benefit of the respective party. Each party shall obtain any special endorsements, if required by their insurer, to evidence compliance with the aforementioned waiver.

SERVICES AND UTILITIES **15**

Lessor agrees to furnish to the premises during reasonable hours of generally recognized business days, to be determined by Lessor, and subject to the rules and regulations of the building of which the premises are a part, water and electricity suitable for the intended use of the premises, heat and air conditioning required in Lessor's judgment for the comfortable use and occupation of the premises, day/week — janitorial service, and elevator service. Lessor shall also maintain and keep lighted the common stairs, entries and toilet rooms in the building of which the demised premises are a part. Lessor shall not be liable for, and Lessee shall not be entitled to, any abatement or reduction of rental by reason of Lessor's failure to furnish any of the foregoing when such failure is caused by accidents, breakage, repairs, strikes, lockouts or other labor disturbances or labor disputes of any character, or by any other cause, similar or dissimilar, beyond the reasonable control of Lessor. Lessor shall not be liable under any circumstances for loss of or injury to property, however occurring, through or in connection with or incidental to failure to furnish any of the foregoing. Wherever heat generating machines or equipment are used in the premises which affect the temperature otherwise maintained by the air conditioning system, Lessor reserves the right to install supplementary air conditioning units in the premises and the cost thereof, including the cost of installation and the cost of operation and maintenance thereof, shall be paid by Lessee to Lessor upon demand by Lessor.

*except photo-copy equipment

other business — Lessee will not, without the written consent of Lessor, use any apparatus or device in the premises, ~~including but without limitation thereto,~~ electronic data processing machines, punch card machines* ~~and machines~~ *using current in excess of 110 volts* ~~which will in any way increase the amount of electricity or water usually furnished or supplied for use of the premises as general office space; nor connect with electric current, except through existing electrical outlets in the premises, or water pipes, any apparatus or device, for the purposes of using electric current or water~~. If Lessee shall require water or electric current in excess of that usually furnished or supplied for use of the premises as general office space, Lessee shall first procure the consent of Lessor, which Lessor may refuse, to the use thereof and Lessor may cause a water meter or electric current meter to be installed in the premises, so as to measure the amount of water and electric current consumed for any such other use. The cost of any such meters and of installation, maintenance and repair thereof shall be paid for by Lessee and Lessee agrees to pay to Lessor promptly upon demand therefor by Lessor for all such water and electric current consumed as shown by said meters, at the rates charged for such services by the City of Newport Beach or the local public utility, as the case may be, furnishing the same, plus any additional expense incurred in keeping account of the water and electric current so consumed. See Rider Page 5-a

ich may e

*in which case Lessee will pay the installation expens

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Paragraph 15 (Continued)

The above notwithstanding, Lessee shall have the right to install, at Lessee's expense, one 220 volt outlet and three 110 volt clear line outlets, in which case Lessor shall bear all utility expenses as provided in this lease. In the event Lessee installs more than one 220 volt outlet and three 110 volt clear line outlets, Lessor will have the right to install a meter and charge Lessee the attributable utility expense for each 220 volt outlet or each 110 volt clear line outlet in excess of the three previously mentioned herein.

LESSOR'S INITIALS ________ LESSEE'S INITIALS ________

PERSONAL PROPERTY TAXES

16

Lessee agrees to pay or cause to be paid, before delinquency, any and all taxes levied or assessed and which become payable during the term hereof upon all equipment, furniture, fixtures and other personal property located in the premises; except that which may be owned by Lessor.

RULES AND REGULATIONS

17

Lessee shall faithfully observe and comply with the rules and regulations printed on or annexed to this Lease and all reasonable modifications of and additions thereto from time to time put into effect by Lessor, provided that in such event Lessor shall give written notice thereof to Lessee. Lessor shall not be responsible to Lessee for the non performance by any other tenant or occupant of the building of any of said rules and regulations, but shall diligently enforce said rules and regulations as to all Tenants.

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HOLDING OVER

18

If, with Lessor's consent, Lessee holds possession of the premises after the term of this Lease, Lessee shall become a tenant from month to month upon the terms herein specified but at a monthly rental equivalent to the then prevailing rental paid by Lessee at the expiration of the term of this Lease pursuant to all of the provisions of Paragraphs 4 and 5 hereof, payable in advance on or before or upon the first day of each month, and Lessee shall continue in possession until such tenancy shall be terminated by* ~~Lessor, or until Lessee shall have given to Lessor~~ a written notice at least one month prior to the date of termination of such monthly tenancy of his intention to terminate such tenancy.

*either party upon

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ENTRY BY LESSOR

19

Lessor reserves and shall at any and all times have the right to enter the premises to inspect the same, to supply janitor service and any other service to be provided by Lessor to Lessee hereunder, to submit said premises to prospective purchasers or tenants, to post notices of nonresponsibility, and to alter, improve or repair the premises and any portion of the building of which the premises are a part, without abatement of rent, and may for that purpose erect scaffolding and other necessary structures where reasonably required by the character of the work to be performed, always providing the entrance to the premises shall not be blocked thereby, and further providing that the business of Lessee shall not be interfered with unreasonably. Lessee hereby waives any claim for damages for any injury or inconvenience to or interference with Lessee's business, any loss of occupancy or quiet enjoyment of the premises, and any other loss occasioned thereby. For each of the aforesaid purposes, Lessor shall at all times have and retain a key with which to unlock all of the doors in, upon and about the premises, excluding lessee's vaults and safes, and Lessor shall have the right to use any and all means which Lessor may deem proper to open said doors in an emergency, in order to obtain entry to the premises, and any entry to the premises obtained by Lessor by any of said means, or otherwise, shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of, the premises, or an eviction of Lessee from the premises or any portion thereof.

DEFAULT

20

The occurrence of any of the following shall constitute a material default and breach of this Lease by Lessee:

(i) Any failure by Lessee to pay the rental or to make any other payments required to be made by Lessee hereunder (where such failure continues for ten (10) days after written notice thereof by Lessor to Lessee).

(ii) The abandonment or vacation of the Premises by Lessee.

(iii) A failure by Lessee to observe and perform any other provision of this Lease to be observed or performed by Lessee, where such failure continues for thirty (30) days after written notice thereof by Lessor to Lessee; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such thirty-day period Lessee shall not be deemed to be in default if Lessee shall within such period commence such cure and thereafter diligently prosecute the same to completion.

(iv) The making by Lessee of any general assignment for the benefit of creditors; the filing by or against Lessee of a petition to have Lessee adjudged a bankrupt or of a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days.

In the event of any such default by Lessee, then in addition to any other remedies available to Lessor at law or in equity, Lessor shall have the immediate option to terminate this Lease and all rights of Lessee hereunder by giving written notice of such intention to terminate. In the event that Lessor shall elect to so terminate this Lease then Lessor may recover from Lessee:

(i) the worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus

(ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss Lessee proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Lessee proves could be reasonably avoided; plus

(iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform his obligations under this Lease or which in the ordinary course of things would ~~be likely to result~~ have resulted therefrom, and

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(v) at Lessor's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable California law.

The term "rent", as used herein, shall be deemed to be and to mean the rental, rental adjustment payments and all other sums required to be paid by Lessee pursuant to the terms of this Lease.

As used in subparagraphs (i) and (ii) above, the "worth at the time of award" is computed by allowing interest at the rate of ten (10%) percent per annum. As used in subparagraph (iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one (1%) percent.

In the event of any such default by Lessee, Lessor shall also have the right, with or without terminating this Lease, to re-enter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Lessee.

In the event of the vacation or abandonment of the Premises by Lessee or in the event that Lessor shall elect to re-enter as provided above or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, then if Lessor does not elect to terminate this Lease as provided above, then Lessor may from time to time, without terminating this Lease, either recover all rental as it becomes due or relet the Premises or any part thereof for such term or terms and conditions as Lessor in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises.

In the event that Lessor shall elect to so relet, then rentals received by Lessor from such reletting shall be applied: first, to the payment of any indebtedness other than rent due hereunder from Lessee to Lessor; second, to the payment of any cost of such reletting; third, to the payment of the cost of any alterations and repairs to the Premises; fourth, to the payment of rent due and unpaid hereunder; and the residue, if any, shall be held by Lessor and applied in payment of future rent as the same may become due and payable hereunder. Should that portion of such rentals received from such reletting during any month, which is applied by the payment of rent hereunder, be less than the rent payable during that month by Lessee hereunder, then Lessee shall pay such deficiency to Lessor immediately upon demand therefor by Lessor. Such deficiency shall be calculated and paid monthly. Lessee shall also pay to Lessor, as soon as ascertained, any costs and expenses incurred by Lessor in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting.

No re-entry or taking possession of the Premises by Lessor pursuant to this Paragraph 20 shall be construed as an election to terminate this Lease unless a written notice of such intention be given to Lessee or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Lessor because of any default by Lessee, Lessor may at any time after such reletting elect to terminate this Lease for any such default.

RECONSTRUCTION **21**

In the event the premises or the building of which the premises are a part are damaged by fire or other perils covered by extended coverage insurance, Lessor agrees to forthwith repair the same; and this Lease shall remain in full force and effect, except that Lessee shall be entitled to a proportionate reduction of rent while such repairs are being made, such proportionate reduction to be based upon the extent to which the making of such repairs shall interfere with the business carried on by Lessee in the premises.

In the event the premises or the building of which the premises are a part are damaged as a result of any cause other than the perils covered by fire and extended coverage insurance, then Lessor shall forthwith repair the same, provided the extent of the destruction be less than twenty-five (25%) per cent of the then full replacement value of the premises or the building of which the premises are a part. In the event the destruction of the premises or of the building is to an extent greater than twenty-five (25%) per cent of the then full replacement value, then Lessor shall have the option either: (1) to repair or restore such damage, this Lease continuing in full force and effect, but the rent to be proportionately reduced as hereinabove in this paragraph provided; or (2) give notice to Lessee at any time within thirty (30) days after such damage, terminating this Lease as of the date of ~~specified in~~ such notice. ~~which date shall be no less than thirty (30) nor more than sixty (60) days after the giving of such notice~~. In the event of giving of such notice, this Lease shall expire and all interest to the Lessee in the premises shall terminate on the date of ~~specified in~~ such notice and the rent, reduced by any proportionate reduction, based upon the extent, if any, to which such damage interfered with the business carried on by Lessee in the premises, shall be paid up to date of such termination.

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Notwithstanding anything to the contrary contained in this Paragraph, Lessor shall not have any obligation whatsoever to repair, reconstruct or restore the premises when the damage resulting from any casualty covered under this Paragraph occurs during the last twelve (12) months of the term of this Lease or any extension thereof.

Lessor shall not be required to repair any injury or damage by fire or other cause, or to make any repairs or replacements of any panels, decoration, office fixtures, railing, ceiling, floor covering, partitions, or any other property installed in the premises by Lessee.

~~The provisions of Section 1932, Subdivision 2, and Section 1933, Subdivision 4, of the Civil Code of the State of California are hereby waived by Lessee.~~

INITIAL HERE

EMINENT DOMAIN **22**

If all or any part of the premises shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain, either party hereto shall have the right, at its option, to terminate this Lease, and Lessor shall be entitled to any and all income, rent, award, or any interest therein whatsoever which may be paid or made in connection with such public or quasi-public use or purpose, and Lessee shall have no claim against Lessor for the value of any unexpired term of this Lease. If a part of the premises shall be so taken or appropriated and neither party hereto shall elect to terminate this Lease, the rental thereafter to be paid shall be equitably reduced. Before Lessee may terminate this Lease by reason of taking or appropriation as above provided, such taking or appropriation shall be of such an extent and nature as to substantially handicap, impede or impair Lessee's use of the premises. If any part of the building other than the premises shall be so taken or appropriated,*~~Lessor shall have the right, at its option,~~ to terminate this Lease and*shall be entitled to the entire award, as above provided.

*either party shall have the right

*Lessor

INITIAL HERE

PLATS AND RIDERS **23**

Clauses, plats and riders, if any, signed by Lessor and Lessee and endorsed on or affixed to this Lease are a part hereof.

SALE BY LESSOR **24**

In the event of a sale or conveyance by Lessor of the building containing the premises, the same shall operate to release Lessor from any future liability upon any of the covenants or conditions, express or implied, herein contained in favor of Lessee, and in such event Lessee agrees to look solely to the responsibility of the successor in interest of Lessor in and to this Lease. This Lease shall not be affected by any such sale, and Lessee agrees to attorn to the purchaser or assignee.

ATTORNEYS' FEES **25**

In the event of any action or proceeding brought by either party against the other under this Lease the prevailing party shall be entitled to recover for the fees of its attorneys in such action or proceeding such amount as the Court may adjudge reasonable as attorney's fees.

SURRENDER OF PREMISES **26**

The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of the Lessor, terminate all or any existing subleases or subtenancies, or may, at the option of Lessor, operate as an assignment to it of any or all such subleases or subtenancies.

WAIVER **27**

The waiver by Lessor of any term, covenant or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of rent hereunder by Lessor shall not be deemed to be a waiver of any preceding breach by Lessee of any term, covenant or condition of this Lease, other than the failure of Lessee to pay the particular rental so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

NOTICES **28**

All notices and demands which may or are required to be given by either party to the other hereunder shall be in writing. All notices and demands by the Lessor to the Lessee shall be sent by United States certified or registered mail, postage prepaid, addressed to the Lessee at the premises, or to such other place as the Lessee may from time to time designate in a notice to the Lessor. All notices and demands by the Lessee to the Lessor shall be sent by United States certified or registered mail, postage prepaid, addressed to the Lessor at the Office of the Building, or to such other person or place as the Lessor may from time to time designate in a notice to the Lessee.

DEFINED TERMS AND MARGINAL HEADINGS **29**

The words "Lessor" and "Lessee" as used herein shall include the plural as well as the singular. Words used in masculine gender include the feminine and neuter. If there be more than one Lessee the obligations hereunder imposed upon Lessee shall be joint and several. The marginal headings and titles to the paragraphs of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

TIME **30**

Time is of the essence of this Lease and each and all of its provisions.

SUCCESSORS AND ASSIGNS **31**

The covenants and conditions herein contained shall, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of the parties hereto.

PARKING **32**

Lessee shall have the right to park in the building's parking facilities in common with other tenants of the building upon terms and conditions as may from time to time be established by Lessor. Lessee shall however have the right to park in at least four stalls per 1,000 square feet of occupied space. ~~Upon request, at least five spaces will be marked to indicate that they are reserved for Lessee~~.

INITIAL HERE

SECURITY DEPOSIT **33**

Lessee has deposited with Lessor the sum of Three Thousand Four Hundred Seventy Five and no/100ths-------- ($3,475.00-------). Said sum shall be held by Lessor as security for the faithful performance by Lessee of all of the terms, covenants, and conditions of this Lease to be kept and performed by Lessee during the term hereof. If Lessee defaults with respect to any provision of this Lease, including but not limited to the provisions relating to the payment of rent, Lessor may (but shall not be required to) use, apply or retain all or any part of this security deposit for the payment of any rent or any other sum in default, or for the payment of any other amount which Lessor may spend or become obligated to spend by reason of Lessee's default or to compensate Lessor for any other loss or damage which Lessor may suffer by reason of

Lessee's default. If any portion of said deposit is so used or applied, Lessee shall, upon demand therefor, deposit cash with Lessor in an amount sufficient to restore the security deposit to its original amount and Lessee's failure to do so shall be a material breach of this Lease. Lessor shall not be required to keep this security deposit separate from its general funds, and Lessee shall not be entitled to interest on such deposit. If Lessee shall fully and faithfully perform every provision of this Lease to be performed by it, the security deposit or any balance thereof shall be returned to Lessee (or, at Lessor's option, to the last assignee of Lessee's interests hereunder) at the expiration of the Lease term. In the event of termination of Lessor's interest in this Lease, Lessor shall transfer said deposit to Lessor's successor in interest.

IN WITNESS WHEREOF Lessor and Lessee have executed this Lease the day and year first above written.

COMPREHENSIVE CARE CORPORATION	JPH ENTERPRISES
By	By
By V.P.	By
(LESSEE)	(LESSOR)

ADDENDUM TO LEASE
BY AND BETWEEN JPH ENTERPRISES, LESSOR,
AND COMPREHENSIVE CARE CORPORATION, LESSEE
DATED

Article 34 OPTION TO RENEW

Lessee is hereby granted two 2-year options to renew this lease from and after the original term hereof at the then adjusted rental rate. All other terms and conditions as herein contained shall be the same. Written notice of Lessee's intent to exercise this option to be given to Lessor ninety (90) days prior to the expiration of original term of this lease. In the event the second 2-year option is exercised, written notice of Lessee's intent to exercise this option to be given to Lessor ninety (90) days prior to the expiration of the first option period of this lease.

Article 35 RIGHT TO CANCEL

Tenant shall have the right to cancel this lease anytime after the end of the third (3rd) year of the lease term. Tenant shall inform Landlord in writing ninety (90) days prior to said cancellation date, with a cancellation penalty to be paid to Landlord in an amount equal to two (2) months' rent at the then-adjusted rate. Cancellation penalty to accompany written notice of cancellation and shall be paid ninety (90) days prior to said cancellation.

LESSOR'S INITIALS ____________ LESSEE'S INITIALS ____________

RULES AND REGULATIONS ATTACHED TO AND MADE A PART OF THIS LEASE

1

No sign, placard, picture, advertisement, name or notice shall be inscribed, displayed or printed or affixed on or to any part of the outside or inside of the building without the written consent of Lessor first had and obtained and Lessor shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Lessee.

All approved signs or lettering on doors shall be printed, painted, affixed or inscribed at the expense of Lessee by a person approved of by Lessor.

Lessor shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the premises; provided, however, that Lessor is to furnish and install a building standard window drapery at all exterior windows.

2

No Lessee shall obtain for use upon the premises ~~ice, drinking water~~, towel or other similar service or accept barbering or bootblacking services on the premises, except from persons authorized by the Lessor and at the hours and under regulations fixed by the Lessor.

INITIAL HERE

3

The bulletin board or directory of the building will be provided exclusively for the display of the name and location of Lessee only and Lessor reserves the right to exclude any other names therefrom.

4

The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by any of the lessees or used by them for any purpose other than for ingress to and egress from their respective premises. The halls, passages, exits, entrances, elevators, stairways, balconies and roof are not for the use of the general public and the Lessor shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of the Lessor shall be prejudicial to the safety, character, reputation and interests of the building and its lessees, provided that nothing herein contained shall be construed to prevent such access to persons with whom the lessee normally deals in the ordinary course of Lessee's business unless such persons are engaged in illegal activities. No lessee and no employees or invitees of any lessee shall go upon the roof of the building.

5

Lessee shall not alter any lock or install any new or additional locks or any bolts on any door of the premises.

6

The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Lessee who, or whose employees or invitees shall have caused it.

7

Lessee shall not overload the floor of the premises or mark, drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the premises or any part thereof, excluding nails for wall pictures and ornaments.

INITIAL HERE

8

No furniture, freight or equipment of any kind shall be brought into the building without the consent of Lessor and all moving of the same into or out of the building shall be done at such time and in such manner as Lessor shall designate. Lessor shall have the right to prescribe the weight, size and position of all safes and other heavy equipment brought into the building and also the times and manner of moving the same in and out of the building. Safes or other heavy objects shall, if considered necessary by Lessor, stand on wood strips of such thickness as is necessary to properly distribute the weight. Lessor will not be responsible for loss of or damage to any such safe or property from any cause and all damage done to the building by moving or maintaining any such safe or other property shall be repaired at the expense of Lessee.

9

Lessee shall not employ any person or persons other than the janitor of Lessor for the purpose of cleaning the premises unless otherwise agreed to by Lessor. Except with the written consent of Lessor,* no person or persons other than those approved by Lessor shall be permitted to enter the building for the purpose of cleaning the same. Lessee shall not cause any unnecessary labor by reason of Lessee's carelessness or indifference in the preservation of good order and cleanliness. Lessor shall in nowise be responsible to any Lessee for any loss of property on the premises, however occurring, or for any damage done to the effects of any Lessee by the janitor or any other employee or any other person. Janitor service shall include ordinary dusting and cleaning by the janitor assigned to such work and shall not include cleaning of carpets or rugs, except normal vacuuming, or moving of furniture or other special services.

*which consent shall not unreasonably be withheld,

INITIAL HERE

10

Lessee shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the premises, or permit or suffer the premises to be occupied or used in a manner offensive or objectionable to the Lessor or other occupants of the building by reason of noise, odors and/or vibrations, or interfere in any way with other lessees or those having business therein, nor shall any animals or birds be brought in or kept in or about the premises or the building.

11

No cooking except for preparation of coffee or related food items and except for preparation of food in a micro-wave oven, shall be done or permitted by any Lessee on the premises, nor shall the premises be used for the storage of merchandise, for washing clothes, for lodging, or for any improper, objectionable or immoral purposes.

INITIAL HERE

12

Lessee shall not use or keep in the premises or the building any kerosene, gasoline or inflammable or combustible fluid or material, or use any method of heating or air conditioning other than that supplied by Lessor.

13

Lessor will direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for wires will be allowed without the consent of Lessor. The location of telephones, call boxes and other office equipment affixed to the premises shall be subject to the approval of Lessor, which approval shall not be unreasonably withheld.

INITIAL HERE

14

Each Lessee, upon the termination of the tenancy, shall deliver to the Lessor the keys of offices, rooms and toilet rooms which shall have been furnished the Lessee or which the Lessee shall have had made, and in the event of loss of any keys so furnished, shall pay the Lessor therefor.

15

No Lessee shall lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the premises in any manner except as approved by the Lessor. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by the Lessee by whom, or by whose contractors, employees or invitees, the damage shall have been caused.

16

No furniture, packages, supplies, equipment or merchandise will be received in the building or carried up or down in the elevators, except between such hours and in such elevators as shall be designated by the Lessor.

17

On Saturdays, Sundays and legal holidays, and on other days between the hours of 6:00 P.M. and 8:00 A.M. the following day, access to the building, or to the halls, corridors, elevators or stairways in the building, or to the premises may be refused unless the person seeking access is known to the person or employee of the building in charge and has a pass or is properly identified. The Lessor shall in no case be liable for damages for any error with regard to the admission to or exclusion from the building of any person. In case of invasion, mob, riot, public excitement, or other commotion, the Lessor reserves the right to prevent access to the building during the continuance of the same by closing the doors or otherwise, for the safety of the Lessees and protection of property in the building and the building.

18

Lessee shall see that the doors of the premises are closed and securely locked before leaving the building and must observe strict care and caution that all water faucets or water apparatus are entirely shut off before Lessee or Lessee's employees leave the building, and that all electricity shall likewise be carefully shut off, so as to prevent waste or damage, and for any default or carelessness Lessee shall make good all injuries sustained by other tenants or occupants of the building or Lessor.

19

Lessor reserves the right to exclude or expel from the building any person who, in the judgment of Lessor, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the building.

20

The requirements of Lessee will be attended to only upon application at the Office of the Building. Employees of Lessor shall not perform any work or do anything outside of their regular duties unless under special instructions from the Lessor, and no employee will admit any person (Lessee or otherwise) to any office without specific instructions from the Lessor.

21

No vending machine or machines of any description shall be installed, maintained or operated upon the premises without the written consent of the Lessor.

22

Lessor shall have the right, exercisable without notice and without liability to Lessee, to change the name and the street address of the building of which the premises are a part.

23

Lessee shall not disturb, solicit, or canvass any occupant of the building and shall cooperate to prevent same; however, this shall not prevent Lessee from discussing rules and regulations with other Tenants or joining with them to petition Lessor.

INITIAL HERE

24

Without the written consent of Lessor, Lessee shall not use the name of the building in connection with or in promoting or advertising the business of Lessee except as Lessee's address.

25

Lessor shall furnish heating and air conditioning during the hours of 8:00 a.m. ~~7:30 A.M.~~ to 6:00 p.m. ~~6:30 P.M.~~ Monday through ~~Friday, and 8:00 A.M. to 12:00 P.M. on~~ Saturday, except for holidays. In the event Lessee requires heating and air conditioning during off hours, Sundays, or holidays, Lessor shall on notice provide this at an hourly rate to be established by Lessor.

26

The word "building" as used herein means the building of which the premises are a part.

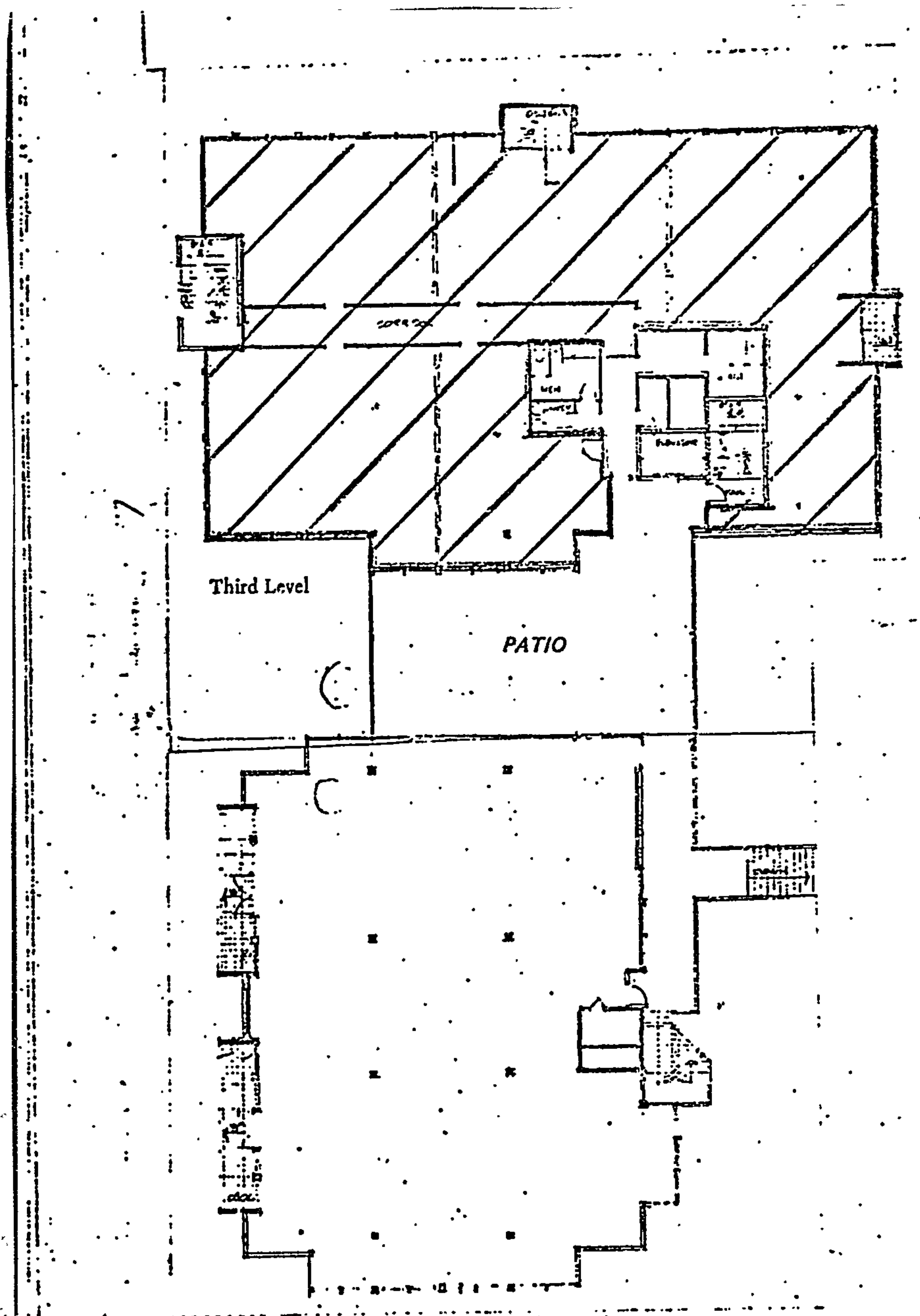
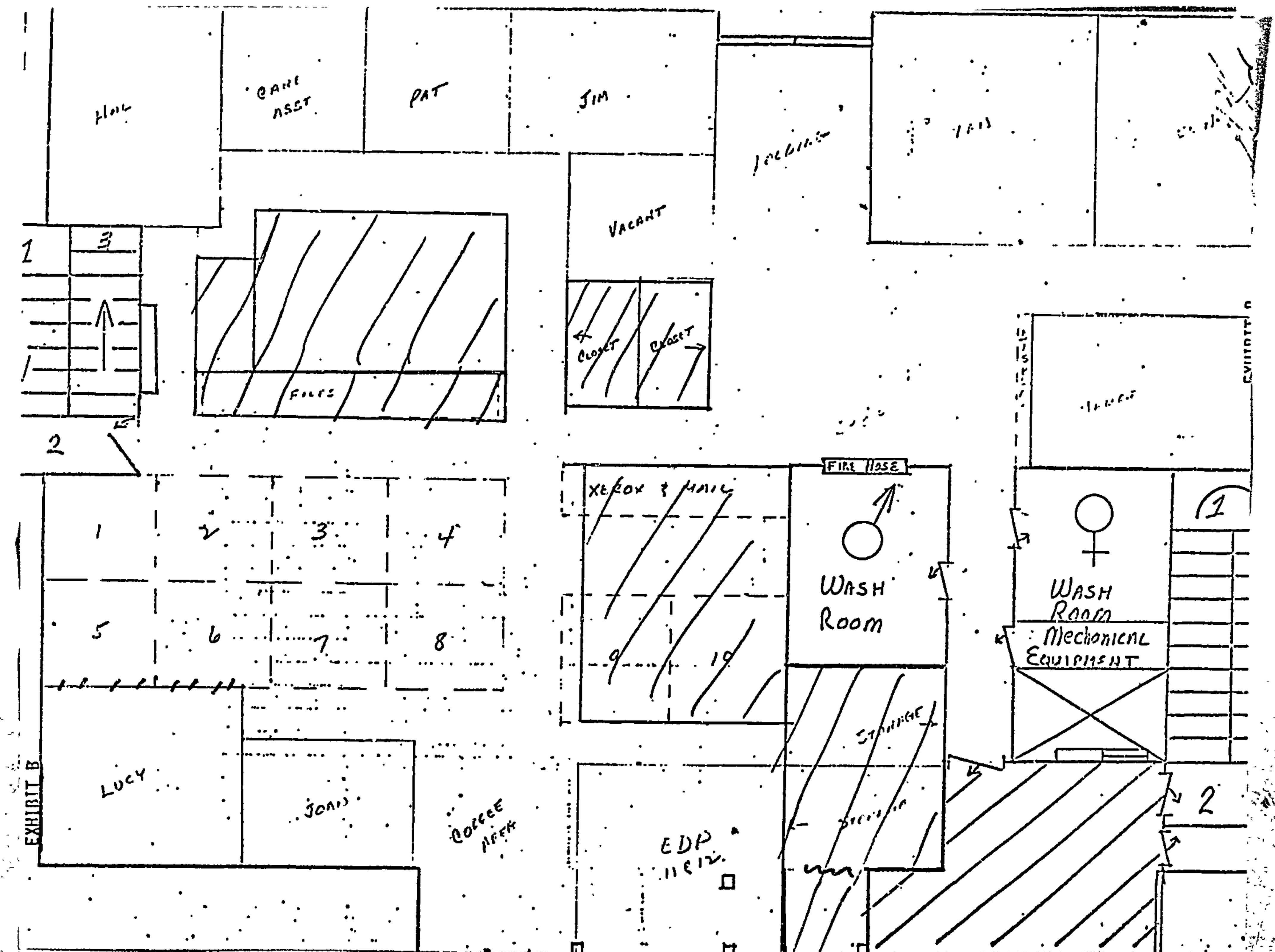


EXHIBIT A



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JPH ENTERPRISES
230 NEWPORT CENTER DRIVE
NEWPORT BEACH, CALIFORNIA

TENANT IMPROVEMENT SCHEDULE

TENANT PARTITIONING: One hundred (100) lineal feet of interior vinyl partitioning will be allowed for each one thousand (1,000) square feet of net rentable area.

ELECTRICAL OUTLETS: One (1) duplex wall outlet per each one hundred fifty (150) square feet of net rentable area.

TELEPHONE OUTLETS: One (1) wall outlet per each two hundred (200) square feet of net rentable area.

CEILING: Suspended "T" bar grid system with acoustical tile.

LIGHTING: One (1) 2'x4' fluorescent lighting fixture per seventy five (75) square feet of net rentable area.

HEATING AND AIR CONDITIONING: Landlord shall provide heating and air conditioning with separate thermostatically controlled zones consistent with good engineering practice. There shall be not less than four such thermostatically controlled zones.

DRAPERIES: Standard building draperies shall be provided by Landlord at Landlord's expense.

FLOOR COVERING: Landlord shall install carpeting throughout tenant space. Colors and quality to be selected by ~~owner and standard throughout the building~~ Lessee.

INITIAL HERE

DOORS: FIVE (5) ~~One (1)~~ solid core ~~entry~~ doors shall be provided for each tenant. One (1) paint grade hollow core interior door shall be provided for each three hundred twenty (320) square feet of net rentable area.

GRAPHICS: Suite number and tenant name shall be provided on one (1) entry door and on building directory by owner. All graphics shall be standard throughout building.

~~Tenant shall have the right to (1) repaint the entry area and elevator core area at Landlord's expense or (2) order Landlord to repaint same area at Landlord's expense.~~

INITIAL

Lessee shall have the right to repaint or redecorate the entry area and elevator area at Lessee's expense upon prior written consent of Lessor.

EXHIBIT C

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COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CALCULATION OF PRIMARY EARNINGS PER SHARE

	Year ended May 31 1974	1973	1972	1971	1970
Net earnings (loss) applicable to common stock	$368,000 (a)	$489,000	($2,558,000)	$309,000	$298,000
Average number of shares of common stock and common stock equivalents outstanding:					
Average number of shares of common stock outstanding	916,599	915,381	907,958	865,782	501,527
Common stock equivalents - convertible preferred stock (b)	7,813	7,813		7,813	250,863
Dilutive effect of stock options and warrants after application of treasury stock method (c)					
Average number of shares of common stock and common stock equivalents outstanding	924,412	923,194	907,958	873,595	752,390
Primary earnings (loss) per share	$.40	$.53	($2.82)	$.35	$.40

CALCULATION OF FULLY DILUTED EARNINGS PER SHARE

	Year ended May 31 1974	1973	1972	1971	1970
Net earnings (loss) applicable to common stock on a fully diluted basis	$370,000	$489,000	($2,558,000)	$309,000	$298,000
Average number of shares outstanding on a fully diluted basis:					
Shares used in calculating primary earnings per share	924,412	923,194	907,958	873,595	752,390
[illegible] average number of common stock outstanding assuming conversion of new preferred stock	33,098 (d)				
Dilutive effect of stock options and warrants after application of treasury stock method (c)				1,360	1,360
Average number of shares outstanding on a fully diluted basis	957,510	923,194	907,958	874,955	753,750
Fully diluted earnings (loss) per share	$.39	$.53	($2.82)	$.35	$.40

(a) Net earnings per Consolidated Summary of Earnings	$370,000
Less pro rata share of 8% dividend on new preferred stock at May 31, 1974	(2,000)
	$368,000

(b) The 7,813 shares of convertible preferred stock outstanding are not reflected in the 1972 earnings computation as they would have an antidilutive effect.

(c) The dilutive effect of stock options and warrants was less than 3% for 1970 and 1971, therefore, this effect was not shown above. Stock options and warrants are not dilutive in 1973 and 1974.

(d) The dilutive effect relative to assumed conversion of new preferred stock was less than 3%, therefore, this effect was not reflected in the Consolidated Statement of Earnings. See Note 5 of notes to financial statements.

EXHIBIT 2

END

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