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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SEP 9 1980

FORM 10-K

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

62

For the fiscal year ended May 31, 1980

Commission file no. 0-5751

COMPREHENSIVE CARE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

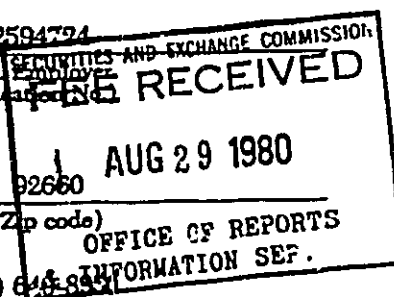
(State or other jurisdiction of
incorporation or organization)

660 Newport Center Drive, 4th Floor
Newport Beach, California

(Address of principal executive offices)

95-2594794

(L.R.S. Employee
Identification No.)



Registrant's telephone number, including area code (714) 646-8931

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)

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), (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

The Registrant had 3,233,684 shares of Common Stock outstanding as of the close of the period covered by this Report.

Item 1. Business.

The Registrant, Comprehensive Care Corporation, is a Delaware corporation which was organized in January, 1969. Registrant is a health care management company which is primarily engaged in providing alcoholic and drug rehabilitation and acute psychiatric treatment services.

Development

Registrant's initial activities in the health care management field were limited to acute psychiatric hospitals and long-term care facilities for the elderly (convalescent and intermediate care hospitals and residential care facilities). During fiscal 1974 a decision was made to shift Registrant's development away from the capital intensive long-term care industry and the CareUnit Program (discussed below) was conceived and the prototype implemented.

Fiscal 1975 and 1976 brought the expansion of the CareUnit Program from its single installation to 20 programs. The prototype for a sister program, the StressCenter, was developed and implemented. During fiscal 1977, CareManor Hospital of Orange was acquired and CompCare Publications was started. The number of CareUnit and StressCenter Programs increased to 24. By the end of fiscal 1978, 30 CareUnit and StressCenter Programs were in operation and Registrant had established itself as a major factor in the management of psychiatric and alcoholic rehabilitation programs.

In fiscal 1979, Registrant began managing the 84-bed ALCENAS Hospital in Seattle, acquired Viewpark Community Hospital (104 beds, general acute care) in Los Angeles and added 16 CareUnit Programs to its operations. Registrant also privately placed \$1,700,000 in 9% convertible subordinated notes enabling it to extinguish its then current bank debt and to close the year with substantial short-term investments.

In fiscal 1980, 10 CareUnit and StressCenter programs were added and Registrant commenced operating Shenandoah Lodge, a 22 bed alcoholism rehabilitation facility in Harrisonburg, Virginia.

Health Care Services

Registrant operates or participates in the operation of five acute psychiatric hospitals (three of which are dedicated to the treatment of alcoholism and other drug dependencies), one alcoholism treatment hospital, one acute medical surgical hospital and one each extended, intermediate and residential care facilities. Registrant also manages CareUnit (Comprehensive Alcoholic Rehabilitation Environment Unit) Programs in 53 general hospitals, StressCenter Programs in 3 general hospitals and manages an alcoholism hospital for an unrelated person. All of these hospital facilities have an organized medical staff and are duly licensed by the state in which they are located. They are also accredited by the Joint Commission on Accreditation of Hospitals except that the extended, intermediate and residential care facilities are not surveyed by that institution. Where appropriate, they are all certified for participation as providers under the Medicare and Medicaid programs.

The acute psychiatric licensed hospitals are: Brea Hospital Neuropsychiatric Center, 142-bed facility, Brea, California; Trinity Oaks Hospital, 26-bed facility, Fort Worth, Texas; Woodview-Calabasas Hospital, 117-bed facility, Calabasas, California; Crossroads Hospital, 33-bed facility, Van Nuys, California; and CareManor Hospital, 94-bed facility, Orange, California. These hospitals provide treatment for a wide range of mental health problems. CareManor, Trinity Oaks and Crossroads Hospitals are dedicated to the treatment of alcoholism and other drug dependencies. Woodview-Calabasas and Crossroads are managed through a joint venture between Registrant and American Psychiatric Hospitals of California, Inc., a Tennessee corporation. The extended, intermediate and residential care facilities are Bay View Convalescent Hospital, 59-bed facility, Costa Mesa, California; Tustin Manor, 99-bed facility, Tustin, California; and Bayview Manor, 72-bed facility, Costa Mesa, California. The alcoholism treatment hospital is Shenandoah Lodge, a 22-bed facility, Harrisonburg,

Virginia; and the acute medical surgical hospital is Viewpark Community Hospital, a 104-bed facility, Los Angeles, California.

The CareUnit and StressCenter Programs which Registrant operates are located as follows:

<u>State</u>	<u>Programs</u>
Alabama	3
California	14
Colorado	2
District of Columbia	1
Florida	2
Georgia	1
Idaho	1
Illinois	4
Indiana	1
Louisiana	1
Michigan	3
Missouri	2
Montana	2
Nevada	1
New Jersey	1
New Mexico	1
Ohio	3
Oklahoma	2
Oregon	5
Tennessee	3
Texas	1
Washington	2
Total	<u>58</u>

A CareUnit Program involves a contracted service under which beds in a general hospital are utilized to provide alcoholic rehabilitation services. Under such contracts, the hospital provides beds, nurses, space for the CareUnit Team and other ancillary, diagnostic and support services. Registrant provides a 5-person treatment team consisting of a medical doctor, psychologist, program coordinator, social worker and alcoholism therapist. This team receives corporate support in the areas of program implementation, therapy team training, staff recruiting, continuing education, nurse and hospital employee training, community education, advertising, public relations and program quality assurance.

A StressCenter Program involves a contracted service under which beds in a general hospital are utilized for provision of mental health services. A 5-person team from Registrant provides treatment for patients in need of medical care under a program similar to that provided in its CareUnits.

At May 31, 1980, there were 18 additional CareUnit Program contracts and 3 additional StressCenter contracts signed and pending implementation.

Registrant also manages Alcenaz, a free standing 84-bed alcoholism hospital owned by a third person which is located in Seattle, Washington.

During fiscal 1980, occupancy of the above facilities averaged approximately 70 percent.

Literature Publishing and Distribution Services

CompCare Publications, a literature publishing and distribution center specializing in items related to Registrant's health care services, was opened in 1976. During 1980, it generated approximately 2 percent of total revenues and was nominally profitable.

Regulation

The operation of Registrant's facilities is subject to federal, state and local government regulation, periodic inspection and licensing regarding the fitness and adequacy of its buildings, their equipment, personnel, standards of medical care and drugs provided patients and adequacy of building standards including fire prevention standards. Changes in applicable statutes, ordinances, rules and regulations could require changes in Registrant's facilities, equipment, personnel or services.

Source of Revenues

Approximately 90% of Registrant's revenues are received from private sources (hospitals under Registrant's CareUnit and StressCenter contracts, private health insurance coverage and directly from patients). The balance of its revenues are received from Medicare and Medicaid. The latter are governmental programs which provide for payments based upon rates set or approved by a governmental agency as they relate to costs on a hospital-by-hospital basis. This type of reimbursement does not contribute significantly to Registrant's earnings.

In recent years numerous hospital cost containment and national health insurance proposals have been introduced in Congress, and the Administration has stated that cost containment and national health insurance are important parts of its overall domestic policy. To date, neither cost containment nor national health insurance legislation has been enacted by Congress. If such legislation is passed and reimbursement methods similar to those now utilized under the Medicare and Medicaid programs are utilized, Registrant's earnings may be negatively impacted.

Insurance

Registrant carries insurance for property damage, public liability and malpractice covering all of its operations. The public liability and malpractice coverage limits are \$5 million or more for each facility, except that such coverage applicable to CareUnits and StressCenters is limited to an aggregate of \$1 million combined single limit which is the maximum coverage available for these units at a reasonable premium cost.

Management

Registrant has centralized management of its operations at its executive and administrative offices which are located in Newport Beach, California. Registrant's centralized management provides control over accounting, medical insurance claims, governmental and statistical reporting, marketing, advertising and public relations, research, training and treatment progress evaluation. Registrant has a regional office in the St. Louis, Missouri area where its marketing, human resources and contract divisions are headquartered and which is the site of its primary training center.

Competition

Registrant's occupancy rates in its psychiatric and alcoholic rehabilitation hospitals are related to the number of staff doctors actively using the hospital facilities. Registrant's hospitals must compete for medical staff membership with other private psychiatric hospitals and general hospitals with acute psychiatric or alcoholism rehabilitation units. Although there are relatively few private psychiatric hospitals, there are many general hospitals with acute psychiatric units and a growing number of alcoholism treatment units in such hospitals. Most hospitals are either owned or supported by government agencies or owned by nonprofit corporations and supported by endowments and charitable

contributions. This type of support, which is not available to Registrant, allows some of these hospitals to provide a wider scope of services and thereby to compete favorably with Registrant for medical staff membership.

Registrant's management believes that it is the largest private provider of alcoholic rehabilitation services in the United States. Its principal competition comes from general hospitals that have determined to provide psychiatric and alcoholism services using their own facilities rather than those of an independent hospital management service.

Employees

As of May 31, 1980, Registrant employed approximately 1,200 persons.

Registrant operates only one line of business, namely, the management and operation of health care facilities, as described above. Registrant's CompCare Publications operation is considered by it to be a separate segment of that general line of business, but since its revenues amount to only approximately 2% of total revenues, that segment is not separately reported.

Item 2. Summary of Operations.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED SUMMARY OF OPERATIONS

(Dollars in thousands)

	Year Ended May 31				
	1980	1979	1978	1977	1976
Revenues:					
Operating (Note C)	\$38,979	\$28,726	\$18,417	\$13,981	\$10,632
Other	194	155	143	140	142
	<u>39,173</u>	<u>28,881</u>	<u>18,560</u>	<u>14,130</u>	<u>10,774</u>
Costs and expenses:					
Operating	23,832	17,083	11,282	8,498	6,207
General, administrative and marketing	8,630	6,849	4,490	3,772	2,919
Depreciation and amortization	863	715	554	463	328
Interest	613	495	470	410	319
	<u>33,938</u>	<u>25,142</u>	<u>16,796</u>	<u>13,143</u>	<u>9,773</u>
Earnings before taxes on income	5,235	3,739	1,764	987	1,001
Taxes on income (Note E)	2,610	1,868	861	432	516
Earnings before extraordinary items	2,625	1,871	903	555	485
Extraordinary items	—	—	—	276	393
Net earnings	<u>\$ 2,625</u>	<u>\$ 1,871</u>	<u>\$ 903</u>	<u>\$ 831</u>	<u>\$ 878</u>
Earnings per common share*					
Primary:					
Earnings before extraordinary items	\$.81	\$.59	\$.29	\$.21	\$.21
Extraordinary items	—	—	—	.11	.18
Net earnings	<u>\$.81</u>	<u>\$.59</u>	<u>\$.29</u>	<u>\$.32</u>	<u>\$.39</u>
Common and common equivalent shares used to compute primary earnings per share	<u>3,233,684</u>	<u>3,194,232</u>	<u>3,113,688</u>	<u>2,618,256</u>	<u>2,261,414</u>
Fully diluted:					
Earnings before extraordinary items	\$.76	\$.57	\$.29	\$.18	\$.16
Extraordinary items	—	—	—	.09	.13
Net earnings	<u>\$.76</u>	<u>\$.57</u>	<u>\$.29</u>	<u>\$.27</u>	<u>\$.29</u>
Common and common equivalent shares used to compute fully diluted earnings per share	<u>3,549,963</u>	<u>3,309,480</u>	<u>3,113,688</u>	<u>3,045,257</u>	<u>2,993,414</u>

* Adjusted for two-for-one stock split declared June 14, 1979 and six-for-five stock split declared June 16, 1978.

See notes to summary of operations.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO SUMMARY OF OPERATIONS

Note A — Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (all wholly-owned) and the Company's 50% interest in the accounts of a joint venture partnership. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note B — Change in Accounting for Leases

These financial statements include an adjustment to the amount previously reported as capital leases in accordance with FASB No. 13. The cumulative effect of this adjustment had it been recorded at May 31, 1979 would have been as follows: increased assets \$502,000; increased current liabilities \$10,000; increased long-term debt \$555,000; decreased retained earnings \$83,000 and no material effect upon earnings.

Note C — Operating Revenues

Operating revenue includes amounts from third-party programs under cost reimbursement principles. Management believes that these principles have been properly applied in the determination of revenues from these programs. Final determination of revenues is subject to audit by intermediaries administering these programs. Differences between final settlement and estimated provisions are reflected in operating revenue in the year finalized.

Note D — Accounting for 50% Interest in a Joint Venture

The Company consolidates its 50% interest in a joint venture partnership. The assets and liabilities of the joint venture partnership included in the consolidated balance sheet are as follows at May 31:

	Company's 50% Share				
	1980	1979	1978	1977	1976
Assets					
Current assets	\$ 871,000	\$ 764,000	\$ 731,000	\$ 567,000	\$ 290,000
Property and equipment (net) .	796,000	418,000	429,000	468,000	491,000
Other assets	3,000	3,000	4,000	1,000	3,000
	<u>\$1,670,000</u>	<u>\$1,185,000</u>	<u>\$1,164,000</u>	<u>\$1,036,000</u>	<u>\$ 784,000</u>
Liabilities and partner's equity					
Current liabilities	\$ 348,000	\$ 276,000	\$ 246,000	\$ 207,000	\$ 138,000
Long-term debt due after one year	890,000	379,000	409,000	421,000	439,000
Partner's equity	432,000	530,000	518,000	408,000	207,000
	<u>\$1,670,000</u>	<u>\$1,185,000</u>	<u>\$1,164,000</u>	<u>\$1,036,000</u>	<u>\$ 784,000</u>

NOTES TO SUMMARY OF OPERATIONS (Continued)

Note D — Accounting for 50% Interest in a Joint Venture (continued)

The operating results of the joint venture partnership included in the consolidated statement of earnings are as follows for the year ended May 31:

	Company's 50% Share				
	1980	1979	1978	1977	1976
Revenues					
Operating	\$3,838,000	\$2,710,000	\$2,521,000	\$2,187,000	\$1,703,000
Other	27,000	20,000	17,000	20,000	30,000
	<u>3,865,000</u>	<u>2,730,000</u>	<u>2,538,000</u>	<u>2,207,000</u>	<u>1,733,000</u>
Costs and expenses					
Operating	1,985,000	1,459,000	1,229,000	1,092,000	857,000
General, administrative and marketing	642,000	704,000	693,000	541,000	458,000
Depreciation and amortization	87,000	53,000	47,000	49,000	47,000
Interest	88,000	38,000	39,000	42,000	53,000
	<u>2,802,000</u>	<u>2,254,000</u>	<u>2,008,000</u>	<u>1,727,000</u>	<u>1,415,000</u>
Earnings before taxes on income	<u>\$1,063,000</u>	<u>\$ 476,000</u>	<u>\$ 530,000</u>	<u>\$ 480,000</u>	<u>\$ 318,000</u>

Note E — Taxes on Income

The Company and its subsidiaries file consolidated corporate income tax returns. Prior to May 31, 1973, separate corporate income tax returns were filed.

Taxes based on earnings from continuing operations consist of the following:

	Year Ended May 31				
	1980	1979	1978	1977	1976
Federal income taxes	\$2,188,000	\$1,533,000	\$ 721,000	\$ 353,000	\$ 426,000
State income taxes	422,000	335,000	140,000	79,000	90,000
	<u>\$2,610,000</u>	<u>\$1,868,000</u>	<u>\$ 861,000</u>	<u>\$ 432,000</u>	<u>\$ 516,000</u>

As of May 31, 1976, the Company had fully utilized federal income tax carryforwards for financial and income tax reporting.

Investment tax credits are applied as a reduction of the tax provision in the year utilized.

A reconciliation between total income taxes and the amount computed by applying the statutory federal income tax rate to earnings from continuing operations before taxes on income follows:

	Year Ended May 31				
	1980	1979	1978	1977	1976
Statutory tax rate applied to pre-tax earnings	\$2,408,000	\$1,765,000	\$ 847,000	\$ 474,000	\$ 481,000
Add (deduct)					
State income taxes net of federal tax benefit	214,000	154,000	83,000	53,000	49,000
Investment tax credit	(74,000)	(48,000)	(26,000)	(93,000)	
New jobs credit		(53,000)	(52,000)		
Other, net	82,000	50,000	9,000	(2,000)	(14,000)
	<u>\$2,610,000</u>	<u>\$1,868,000</u>	<u>\$ 861,000</u>	<u>\$ 432,000</u>	<u>\$ 516,000</u>

NOTES TO SUMMARY OF OPERATIONS (Continued)

Note F — Earnings Per Share

Primary earnings per common and common equivalent share have been computed by dividing earnings net of cash dividends on the 8% new preferred shares by the weighted average number of shares of common stock and convertible preferred stock outstanding during the year as follows:

	1980	1979	1978	1977	1976
Common stock	3,233,684	3,194,232	3,113,688	2,618,256	2,253,602
Convertible preferred stock	—	—	—	—	7,812
	<u>3,233,684</u>	<u>3,194,232</u>	<u>3,113,688</u>	<u>2,618,256</u>	<u>2,261,414</u>
8% cash dividends	\$ —	\$ —	\$ —	\$ —	\$ 24,000

Fully diluted earnings per common and common equivalent share have been computed by dividing earnings by the weighted average number of shares of common stock, convertible preferred stock, and 8% new preferred stock outstanding during the year as follows:

	1980	1979	1978	1977	1976
Common stock	3,233,684	3,194,232	3,113,688	2,618,256	2,253,602
Convertible debentures	316,270	115,248	—	—	—
Convertible preferred stock	—	—	—	—	7,812
8% new preferred stock	—	—	—	427,001	732,000
	<u>3,549,953</u>	<u>3,309,480</u>	<u>3,113,688</u>	<u>3,045,257</u>	<u>2,993,414</u>

The weighted average number of shares outstanding used to compute primary and fully diluted earnings per share have been adjusted to reflect a two-for-one stock split declared June 14, 1979 and the six-for-five stock split declared June 16, 1978. Earnings per share for the years ended May 31, 1980 and 1979 were calculated after giving effect to the elimination of interest expense, less income tax effect, applicable to the convertible debentures.

Cash dividends of \$518,000, \$246,000, \$156,000, \$63,000 and \$48,000 have been paid on common shares in 1980, 1979, 1978, 1977 and 1976, respectively. Shareholders of the convertible preferred stock were not entitled to cash dividends.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE SUMMARY OF CONSOLIDATED OPERATIONS

Fiscal 1980, Compared to 1979

Revenues for fiscal 1980 were \$39.2 million compared to \$28.9 million in fiscal 1979, a 35.6% increase. New operations accounted for approximately 20% of this increase, improved utilization of existing facilities accounted for approximately 65%, and price increases accounted for the remainder.

Gross margin expressed as a percentage of revenue rose from 12.9% in fiscal 1979 to 13.4% in fiscal 1980 due principally to improvement in the utilization of existing facilities, faster recovery of start-up expenses and the Company's ability to offset inflation with price increases.

Facility operating expenses expressed as a percentage of revenue increased from 50.0% in fiscal 1979 to 60.8% in 1980. This was primarily due to losses incurred by the Company's general acute care hospital. General, administrative, and marketing expenses, also expressed as a percentage

of revenues declined from 23.8% in fiscal 1979 to 22.0% in fiscal 1980. The decrease was primarily a result of the Company's ability to stabilize such costs even though the Company's operations were significantly expanded.

Depreciation and amortization increased approximately \$148,000 or 20.7% in fiscal 1980 as compared with fiscal 1979 due primarily to refurbishing projects completed at the Company's existing facilities during those fiscal years.

Interest expense increased \$118,000 or 23.8% in fiscal 1980 as compared with fiscal 1979. The increase was primarily due to the inclusion of a full year's interest on the 9% convertible debentures issued in January, 1979.

As a result of the above factors, pre-tax earnings in fiscal 1980 increased \$1.5 million (40%) over fiscal 1979.

Fiscal 1979, Compared to 1978

Revenues for fiscal 1979 were \$28.9 million compared to \$18.8 million in fiscal 1978, a 55.4% increase. New operations accounted for approximately 55% of this increase, improved utilization of existing facilities accounted for approximately 30%, and price increases accounted for the remainder.

Gross margin expressed as a percentage of revenue rose from 9.5% in fiscal 1978 to 12.9% in fiscal 1979 due principally to improvement in the utilization of existing facilities, faster recovery of start-up expenses and the Company's ability to offset inflation with price increases.

Facility operating expenses expressed as a percentage of revenue declined from 60.8% in fiscal 1978 to 59.1% in fiscal 1979. General, administrative and marketing expenses, also expressed as a percentage of revenues, declined from 24.3% in fiscal 1978 to 23.8% in fiscal 1979.

Depreciation and amortization increased approximately \$160,000 due partly to the inclusion for the first time of depreciation on the plant and equipment at Viewpark Community Hospital which was acquired September 30, 1978. The Company's program to refurbish and upgrade its existing facilities accounted for the remainder of the increase in depreciation and amortization.

Interest expense (net) increased \$25,000 or 5.3% in fiscal 1979 as compared with fiscal 1978. The increase was primarily due to increased borrowings and generally higher interest rates which were only partially offset by increased income from short-term investments.

As a result of the above factors, pre-tax earnings in fiscal 1979 increased \$2.0 million (112%) over fiscal 1978.

Item 3. Properties.

Registrant's executive offices are located on the fourth floor of an office building at 660 Newport Center Drive, Newport Beach, California. This facility consists of approximately 14,896 square feet and is leased for \$8,812 per month under a lease which expires in 1986. Registrant owns Bay View Convalescent Hospital and Viewpark Community Hospital. 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.

<u>Facility and Address</u>	<u>Lease Expires</u>	<u>Monthly Rental</u>
St. Louis Regional Office 12255 DePaul Drive Bridgeton, Missouri 63044	1984	\$13,678
Brea Hospital Neuro-psychiatric Center 875 North Brea Boulevard Brea, California 92621	1986	\$15,965*
Trinity Oaks Hospital, Inc. 1066 West Magnolia Fort Worth, Texas 76104	1996	5,353*
Calabasas Hospital - Neuro- psychiatric Center 25100 Calabasas Road Calabasas, California 92073	1996	16,200*(1)
Crossroads Hospital 6305 Woodman Avenue Van Nuys, California 91401	1987	5,577
CareManor Hospital 401 South Tustin Avenue Orange, California 92668	1994	10,418
Tustin Manor 1051 Bryan Tustin, California 92680	1995	7,745*
Bayview Manor 350 Bay Street Costa Mesa, California 92627	1996	6,105*

- * 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 subsidiaries of Registrant setting forth as to each subsidiary the percentage of voting securities owned, or other basis of control, by its parent:

<u>Company</u>	<u>State of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
NPHS, Inc.*	California	100%
Trinity Oaks Hospital, Inc.*	Texas	100%
CAREUNIT, Inc.*	California	100%
Caremanor Hospital of Virginia*	Virginia	100%
Terracina Convalescent Hospital**	California	100%
Neuro Affiliates Company*	California(1)	50%

* Subsidiaries included in consolidated financial statements.

** Inactive.

(1) Joint Venture with American Psychiatric Hospitals of California, Inc.

Item 5. Legal Proceedings.

Registrant was not engaged in any material legal proceedings as of May 31, 1980.

Item 6. Increases and Decreases in Outstanding Securities and Indebtedness.

(a) Title of Class

(1) Preferred Stock, \$50 par value:

Outstanding at June 1, 1979 and May 31, 1980 -0-

Title of Class

(1) Common Stock, \$.10 par value:

Outstanding at June 1, 1979 1,616,842

June 30, 1979 Issued in connection with 2-for-1 stock split ... 1,616,842

Outstanding at May 31, 1980 3,233,684

Item 7. Changes in Securities and Changes in Security for Registered Securities.

None.

Item 8. Defaults upon Senior Securities.

None.

Item 9. Approximate Number of Equity Security Holders.

<u>Title of Class</u>	<u>Number of Record Holders as of May 31, 1980</u>
Common Stock, par value \$.10 per share	1,400

Item 10. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 11. Indemnification of Directors and Officers.

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 directed, 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 to be 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 12. Financial Statements, Exhibits Filed and Reports on Form 8-K.

(a) 1. Financial Statements:

The Index to Financial Statements and Schedules appearing on page S-1 hereof contains a list of all financial statements filed as a part of this report.

2. Exhibits:

- A. Computation of Earnings Per Share.
- B. Lease dated August 27, 1979 between Registrant and DePaul Medical Office Building Management Corporation (re St. Louis, Missouri regional office).
- C. Deferred Compensation Agreement dated June 27, 1979 between Registrant and B. Lee Karns.
- D. Loan Agreement dated September 27, 1979 between Registrant and Union Bank (re \$3,000,000 revolving loan).

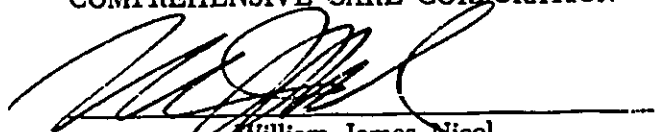
(b) Reports on Form 8-K. None filed during the quarter ended May 31, 1980.

PART II

Omitted. Registrant has filed with the Securities and Exchange Commission, proxy material with respect to its Annual Meeting to be held on October 2, 1980 covering its fiscal year ended May 31, 1980.

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,
Vice President - Finance and Administration,
Secretary and Treasurer

Dated: August 26, 1980.

FINANCIAL STATEMENTS AND SCHEDULES

Years Ended May 31, 1980 and 1979

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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.	
(A) Including Comprehensive Care Corporation (parent only) financial statements — years ended May 31, 1980 and 1979, in Note 10.	

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of
Comprehensive Care Corporation

We have examined the consolidated balance sheet of Comprehensive Care Corporation and subsidiaries as of May 31, 1980 and 1979, and the related consolidated statements of earnings, stockholders' equity and the changes in financial position for the years then ended and the additional notes and schedules listed in the accompanying index. Our examinations were 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 financial statements identified above present fairly the financial position of Comprehensive Care Corporation and subsidiaries at May 31, 1980 and 1979, the results of their operations and the changes in their financial position for the years then ended, and the additional notes and schedules present fairly the information required to be set forth therein, all in conformity with generally accepted accounting principles applied on a consistent basis.

Baron, Lesley, Thomas, Schwarz & Postma
BARON, LESLEY, THOMAS, SCHWARZ
& POSTMA

Newport Beach, California
July 18, 1980

To the Partners of
Neuro Affiliates Company (A Joint Venture)

We have examined the balance sheets of Neuro Affiliates Company (A Joint Venture) as of May 31, 1980 and 1979, and the related statements of income and partners' capital, and changes in financial position for the years then ended. Our examinations were 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 accompanying financial statements present fairly the financial position of Neuro Affiliates Company at May 31, 1980 and 1979, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Baron, Lesley, Thomas, Schwarz & Postma
BARON, LESLEY, THOMAS, SCHWARZ
& POSTMA

Newport Beach, California
July 18, 1980

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS	May 31	
	1980	1979
Current Assets:		
Cash, including time deposits of \$650,000, 1979	\$ 1,023,000	\$ 1,567,000
Accounts receivable, less allowance for doubtful accounts of \$512,000, 1980; \$444,000, 1979 (Schedule XII)	7,357,000	5,174,000
Inventories (Note 1)	348,000	334,000
Prepaid expenses	1,013,000	804,000
Total current assets	9,741,000	7,879,000
Property and equipment, at cost (Notes 1, 3, 5 and Schedules V and VI):		
Land and improvements	892,000	892,000
Building and improvements	3,366,000	3,016,000
Furniture and equipment	2,893,000	2,164,000
Leasehold improvements	558,000	202,000
Capital leases	5,477,000	4,831,000
	13,186,000	11,105,000
Less accumulated depreciation and amortization	4,121,000	3,213,000
	9,065,000	7,892,000
Other assets:		
Costs in excess of net assets of businesses purchased (Note 1 and Schedule VII)	382,000	382,000
Note receivable (Note 8)	277,000	272,000
Other (Note 7)	609,000	492,000
	1,268,000	1,146,000
	<u>\$20,074,000</u>	<u>\$16,917,000</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,039,000	\$ 1,788,000
Accrued advertising	674,000	956,000
Payable to third-party payors with one year	470,000	451,000
Long-term debt payable within one year (Note 3)	369,000	342,000
Income taxes payable	659,000	868,000
Deferred income taxes	247,000	143,000
Total current liabilities	5,458,000	4,548,000
Long-term debt due after one year (Note 3)	6,700,000	6,497,000
Lease Commitments (Note 5)		
Stockholders' equity (Note 4):		
Common stock \$.10 par value; authorized 20,000,000 shares; issued and outstanding, 3,233,684 shares, 1980, and 1,616,842 shares, 1979	323,000	162,000
Additional paid-in capital	2,431,000	2,592,000
Retained earnings	5,162,000	3,118,000
	7,916,000	5,872,000
	<u>\$20,074,000</u>	<u>\$16,917,000</u>

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

	Year Ended May 31	
	1980	1979
Revenues:		
Operating (Note 1)	\$38,979,000	\$28,728,000
Other	194,000	155,000
	<u>39,173,000</u>	<u>28,881,000</u>
Costs and expenses:		
Operating	23,832,000	17,083,000
General, administrative and marketing	8,620,000	6,849,000
Depreciation and amortization (Notes 1 and 5, Schedule VI)	863,000	715,000
Interest	613,000	495,000
	<u>33,938,000</u>	<u>25,142,000</u>
Earnings before taxes on income	5,235,000	3,739,000
Taxes on income (Note 7)	2,610,000	1,868,000
Net earnings	<u>\$ 2,625,000</u>	<u>\$ 1,871,000</u>
Earnings per common share (Note 1):		
Primary	<u>\$.81</u>	<u>\$.59</u>
Assuming full dilution	<u>\$.78</u>	<u>\$.57</u>

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Retained Earnings
	Shares	Amount		
Balances, May 31, 1978	1,297,432	\$ 130,000	\$1,836,000	\$1,493,000
Net earnings				1,871,000
Shares issued in connection with facility acquisition	60,000	6,000	782,000	
Six-for-five stock split	259,410	26,000	(26,000)	
Dividends declared on common stock				(246,000)
Balances, May 31, 1979	1,616,842	162,000	2,592,000	3,118,000
Cumulative effect of capitalization of capital leases -- Additional adjustments to previously reported amounts (Note 1)				(63,000)
Adjusted balances beginning of year . .	1,616,842	162,000	2,592,000	3,055,000
Net earnings				2,625,000
Two-for-one stock split	1,616,842	161,000	(161,000)	
Dividends declared on common stock . .				(518,000)
Balances, May 31, 1980	<u>3,233,684</u>	<u>\$ 323,000</u>	<u>\$2,431,000</u>	<u>\$5,162,000</u>

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years Ended May 31	
	1980	1979
Financial Resources Provided by:		
Operations		
Net earnings	\$2,625,000	\$1,871,000
Items not requiring outlay of working capital:		
Depreciation and amortization of property and equipment	863,000	715,000
Deferred income taxes	(120,000)	161,000
Write-off of goodwill	—	135,000
Working capital provided by operations	3,368,000	2,882,000
Disposal of property and equipment	17,000	427,000
Additional long-term debt	6,000	2,525,000
Issuance of common stock	—	788,000
	<u>3,391,000</u>	<u>6,622,000</u>
Financial Resources Used for:		
Increase to notes receivable	5,000	272,000
Purchases of property and equipment	1,615,000	3,119,000
Reduction of obligations under capital leases	176,000	151,000
Reduction of long-term debt	192,000	1,072,000
Dividends	518,000	246,000
Other applications	(67,000)	132,000
	<u>2,439,000</u>	<u>4,992,000</u>
Increase in Working Capital	<u>\$ 952,000</u>	<u>\$1,630,000</u>
Summary of Changes in Components of Working Capital:		
Increase (decrease) in current assets:		
Cash	\$ (544,000)	\$ 657,000
Accounts receivable	2,183,000	1,771,000
Inventories and prepaid expenses	223,000	470,000
	<u>1,862,000</u>	<u>2,898,000</u>
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	969,000	1,164,000
Payable to third-party payors within one year	19,000	(99,000)
Long-term debt payable within one year	27,000	(144,000)
Income taxes payable	(105,000)	347,000
	<u>910,000</u>	<u>1,268,000</u>
Increase in Working Capital	<u>\$ 952,000</u>	<u>\$1,630,000</u>

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1980 and 1979

Note 1 Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Company and its subsidiaries (all wholly-owned) and the Company's 50% interest in the accounts of a joint venture partnership. All significant intercompany accounts and transactions have been eliminated in consolidation.

Operating Revenues

Operating revenues include amounts from third-party programs under cost reimbursement principles. Management believes that these principles have been properly applied in the determination of revenues from these programs. Final determination of revenues is subject to audit by intermediaries administering these programs. Differences between final settlement and estimated provisions are reflected in operating revenues in the year finalized.

Property and Equipment

Depreciation and amortization of property and equipment is computed on the straight-line method over the estimated useful lives of the related assets, principally: buildings and improvements — 5 to 40 years; furniture and equipment — 3 to 12 years; leasehold improvements — life of lease or life of asset, whichever is less.

Intangible Assets

Costs in excess of net assets of businesses purchased are not being amortized since, in the opinion of management, there has been no reduction in value.

Investment Tax Credits

Investment tax credits are applied as a reduction of the tax provision in the year realized.

Earnings Per Share

Primary earnings per share have been computed by using the weighted average number of common shares outstanding, after adjusting for a two-for-one stock split declared June 14, 1979. The weighted average number of shares was 3,233,684 and 3,194,232 for the years ended May 31, 1980 and 1979, respectively.

Fully diluted earnings per share have been computed by using the weighted average number of common shares and convertible common shares outstanding after adjusting for a two-for-one stock split declared June 14, 1979. The weighted average number of shares was 3,519,963 and 3,309,480 for the years ended May 31, 1980 and 1979, respectively.

Stock options, warrants and rights were not dilutive in 1980 or 1979.

Inventories

Inventories are stated at the lower of FIFO cost or market.

Change in Accounting for Leases

These financial statements include an adjustment to the amounts previously reported as capital leases in accordance with FASB Statement No. 13. The cumulative effect of this adjustment had it

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

May 31, 1980 and 1979

Note 1 Summary of Significant Accounting Policies (continued)

been recorded at May 31, 1979 would have been as follows: increased assets, \$502,000; increased current liabilities, \$10,000; increased long-term debt, \$555,000; decreased retained earnings, \$63,000; and no material effect upon earnings.

Note 2 Accounting for 50% Interest in a Joint Venture Partnership

The Company consolidates its 50% interest in a joint venture partnership. The assets and liabilities of the joint venture partnership included in the consolidated balance sheet are as follows at May 31:

	Company's 50% Share	
	1980	1979
Assets		
Current assets	\$ 871,000	\$ 764,000
Property and equipment (net)	796,000	418,000
Other assets	3,000	3,000
	<u>\$1,670,000</u>	<u>\$1,185,000</u>
Liabilities and partner's equity		
Current liabilities	\$ 348,000	\$ 276,000
Long-term liabilities	890,000	379,000
Partner's equity	432,000	530,000
	<u>\$1,670,000</u>	<u>\$1,185,000</u>

The operating results of the joint venture partnership included in the consolidated statement of earnings are as follows for the year ended May 31:

	Company's 50% Share	
	1980	1979
Revenues		
Operating	\$3,838,000	\$2,710,000
Other	27,000	20,000
	<u>3,863,000</u>	<u>2,730,000</u>
Costs and expenses		
Operating	1,985,000	1,459,000
General, administrative and marketing	642,000	704,000
Depreciation and amortization	87,000	53,000
Interest	86,000	38,000
	<u>2,800,000</u>	<u>2,254,000</u>
Earnings before taxes on income	<u>\$1,063,000</u>	<u>\$ 476,000</u>

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

May 31, 1980 and 1979

Note 3 Long-Term Debt

Long-term debt consists of the following at May 31:

	1980	1979
7% to 10% notes collateralized by trust deeds, payable in monthly installments with maturity dates from 1982 through 1993	\$ 358,000	\$ 455,000
3% uncollateralized note payable monthly with maturity in 2002	347,000	347,000
8% to 8½% unsecured notes payable in quarterly installments with maturity dates through 1983	48,000	61,000
8% unsecured notes payable monthly with maturity dates through 1993	633,000	652,000
9% convertible subordinated debentures with interest payable semi-annually, maturing in 1988	1,700,000	1,700,000
Capital lease obligations (Notes 1 and 5)	3,921,000	3,532,000
Equipment contracts	38,000	65,000
Other	24,000	24,000
	<u>7,069,000</u>	<u>6,839,000</u>
Less amounts due within one year	369,000	342,000
	<u>\$8,700,000</u>	<u>\$6,497,000</u>

Annual maturities of long-term debt for the next five years amount to \$369,000 in 1981, \$338,000 in 1982, \$316,000 in 1983, \$330,000 in 1984 and \$353,000 in 1985.

No amount has been paid on the 3% note. Although a notice of acceleration of this note was received by the Company in 1973, the lender has taken no action to collect it.

The Company has a working capital loan agreement with a bank whereby the Company may borrow, from time to time, certain amounts, evidenced by promissory notes, the aggregate of which cannot exceed \$3,000,000. The notes bear interest at the rate of one percent over the bank's prime rate. There were no amounts outstanding under this line of credit at May 31, 1980.

On January 18, 1979, the Company issued 9% convertible subordinated notes due 1988 in the amount of \$1,700,000. Under terms of the agreement, the Company will establish a mandatory sinking fund equal to 15% of the notes each November 30th, beginning in 1983. The Company may not redeem the notes prior to November 30, 1981, but the holders may convert their notes into common stock at any time at a price equal to \$5.375 per share. Terms of the agreement also require the Company to maintain a current ratio of not less than 1.5:1, to maintain funded debt at less than 80% of net assets not including funded debt, nor declare dividends in excess of 33⅓% of cumulative net income subsequent to May 31, 1978. A portion of the proceeds of the loan were used to retire a bank loan of \$850,000.

Note 4 Stockholders' Equity

On June 14, 1979, the Company declared a two-for-one stock split issued July 26, 1979, to holders of record at June 30, 1979.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

May 31, 1980 and 1979

Note 4 Stockholders' Equity (continued)

Stock Options

The Company has a non-qualified stock option plan for employees of the Company and members of medical staffs of facilities operated by the Company. The option price per share for options granted must be at least 85% of the fair market value at the date of grant. The plan provides for options to become exercisable in varying installments and must be exercised not later than five years from the date of grant. During fiscal 1980 the Company granted options on 70,000 shares at \$10.00 per share. These options must be exercised prior to May 31, 1983. At May 31, 1980 there were 110,000 shares available for grant.

Note 5 Leases

The Company and the joint venture partnership lease facilities, furniture and equipment. The facility leases contain clauses for escalations based on the Consumer Price Index, payment of real estate taxes, insurance, maintenance and repair expenses.

Equipment leases that do not have purchase options are not significant and are not included herein.

Total rental expenses for all operating leases were as follows:

	1980	1979
Minimum rentals	\$ 234,000	\$ 162,000
Contingent rentals	33,000	4,000
Total rentals	<u>\$ 267,000</u>	<u>\$ 166,000</u>

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease; contingent rents associated with capital leases in 1980 and 1979 were \$151,000 and \$222,000, respectively.

Future minimum payments, by year and in the aggregate, under capital leases and non-cancellable operating leases with initial or remaining terms of one year or more consisted of the following at May 31, 1980:

		Capital Leases		Operating Leases
	Company	Joint Venture	Total	
1981	\$ 400,000	\$ 122,000	\$ 522,000	\$ 396,000
1982	400,000	122,000	522,000	348,000
1983	400,000	122,000	522,000	272,000
1984	400,000	122,000	522,000	267,000
1985	400,000	122,000	522,000	198,000
Later Years	3,163,000	1,055,000	4,218,000	240,000
Total minimum lease payments	<u>\$5,163,000</u>	<u>\$1,665,000</u>	<u>6,828,000</u>	<u>\$1,719,000</u>
Less amounts representing interest			<u>2,907,000</u>	
Present value of net minimum lease payments			<u>\$3,921,000</u>	

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

May 31, 1980 and 1979

Note 5 Leases (continued)

Property and equipment accounts at May 31, included the following amounts for capital leases:

	1980	1979
Buildings	\$ 5,477,000	\$ 4,831,000
Less allowances for amortization	(2,377,000)	(1,901,000)
	<u>\$ 3,100,000</u>	<u>\$ 2,930,000</u>

Net capitalized cost included amounts previously accounted for as deferred charges and gains. These net unamortized amounts were \$67,000 and \$95,000 at May 31, 1980 and 1979 respectively.

Amortization of assets recorded under capital leases is included in depreciation expense.

Note 6 Deferred Compensation Plan

During fiscal year 1980, the Company adopted a deferred compensation plan for its President. The amount of unfunded past service cost is \$229,000, which the Company is accruing over a five-year period. The total charge to earnings for fiscal year 1980 amounted to \$38,000.

Note 7 Taxes on Income

Federal and state taxes on income consist of the following:

	1980	1979
Currently payable:		
Federal income taxes	\$2,212,000	\$1,440,000
State income taxes	414,000	304,000
	<u>2,626,000</u>	<u>1,744,000</u>
Deferred:		
Federal income taxes	(24,000)	93,000
State income taxes	8,000	31,000
	<u>(16,000)</u>	<u>124,000</u>
	<u>\$2,610,000</u>	<u>\$1,868,000</u>

A reconciliation between total income taxes and the amount computed by applying the statutory federal income tax rate (46.0% in 1980 and 47.2% in 1979) to earnings before taxes on income is as follows:

	1980	1979
Statutory tax rate applied to pretax earnings	\$ 2,408,000	\$ 1,765,000
Add state income taxes net of federal tax benefit	214,000	154,000
Deduct investment tax credit	(74,000)	(48,000)
Deduct new jobs credit	—	(53,000)
Other	62,000	50,000
	<u>\$ 2,610,000</u>	<u>\$ 1,868,000</u>

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

May 31, 1980 and 1979

Note 7 Taxes on Income (continued)

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each were as follows:

	1980	1979
Capitalized lease costs not deductible for tax purposes	\$ (21,000)	\$ (31,000)
Excess tax over book depreciation	51,000	30,000
Cash basis accounting and different reporting period for tax purposes by joint venture	5,000	188,000
State income taxes not currently deductible	(55,000)	(79,000)
Other, net	4,000	16,000
	<u>\$ (16,000)</u>	<u>\$ 124,000</u>

Deferred tax charges of \$353,000 for 1980 and \$171,000 for 1979 are included in other assets.

Note 8 Note Receivable

On May 16, 1979, the Company sold all the assets of Gilmar Manor, a residential care facility. As part of the transaction, the Company received a note receivable, secured by a second deed of trust, for approximately \$267,000. The terms call for monthly payments, at 9% interest, to be made through 1994.

Note 9 Quarterly Results (Unaudited): Years Ended May 31, 1980 and 1979

<u>1980</u>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	<u>\$ 8,837,000</u>	<u>\$ 9,359,000</u>	<u>\$ 9,903,000</u>	<u>\$11,074,000</u>
Earnings before income taxes	<u>\$ 1,180,000</u>	<u>\$ 1,117,000</u>	<u>\$ 1,200,000</u>	<u>\$ 1,738,000</u>
Federal and state income taxes	590,000	558,000	583,000	879,000
Net earnings	<u>\$ 590,000</u>	<u>\$ 559,000</u>	<u>\$ 617,000</u>	<u>\$ 859,000</u>
Per share — fully diluted	<u>\$.17</u>	<u>\$.16</u>	<u>\$.18</u>	<u>\$.25</u>
<u>1979</u>				
Revenues	<u>\$ 5,892,000</u>	<u>\$ 6,575,000</u>	<u>\$ 7,329,000</u>	<u>\$ 9,085,000</u>
Earnings before income taxes	<u>\$ 941,000</u>	<u>\$ 848,000</u>	<u>\$ 694,000</u>	<u>\$ 1,456,000</u>
Federal and state income taxes	470,000	324,000	347,000	727,000
Net earnings	<u>\$ 471,000</u>	<u>\$ 324,000</u>	<u>\$ 347,000</u>	<u>\$ 729,000</u>
Per share — fully diluted	<u>\$.15</u>	<u>\$.10</u>	<u>\$.11</u>	<u>\$.21</u>

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

May 31, 1980 and 1979

Note 9 Quarterly Results (Unaudited): Years Ended May 31, 1980 and 1979 (continued)

Management's Comments:
 Fourth Quarter Fiscal 1980
 Compared to Fourth Quarter Fiscal 1979

Revenues increased approximately \$1,989,000 in the fourth quarter of 1980 when compared to 1979. New units accounted for approximately 35% of the increase, improved utilization of existing facilities accounted for approximately 50%, and price increases the remainder.

Operating and other expenses increased approximately \$1,707,000. New units generated approximately 35% of this increase, with generally increasing costs associated with increased utilization and inflationary pressures the remainder.

As a result, pre-tax earnings increased \$282,000 in fiscal 1980.

Note 10 Financial Statements of Parent Company

Financial statements of the parent company, Comprehensive Care Corporation, are as follows:

Comprehensive Care Corporation

Balance Sheet

ASSETS

	May 31	
	1980	1979
Current assets:		
Cash, including time deposits of \$650,000, 1979	\$ 800,000	\$ 1,365,000
Accounts receivable, less allowance for doubtful accounts of \$313,000, 1980, and \$286,000, 1979 (Schedule XII)	4,903,000	3,378,000
Prepaid expenses	1,023,000	868,000
Total current assets	6,726,000	5,611,000
Investment in Wholly-Owned Subsidiaries, Equity Method (Schedule III)	11,376,000	7,157,000
Property and Equipment, at cost (Notes 1, 3, 5 and Schedules V and VI):		
Land	532,000	332,000
Buildings and improvements	2,434,000	2,118,000
Furniture and equipment	2,164,000	1,516,000
Leasehold improvements	558,000	202,000
Capital leases	1,591,000	1,591,000
	7,279,000	6,759,000
Less accumulated depreciation and amortization	(1,452,000)	(1,116,000)
	5,827,000	4,903,000
Other assets:		
Cost in excess of net assets of businesses purchased (Note 1 and Schedule VII)	382,000	382,000
Other	827,000	697,000
	1,209,000	1,079,000
	<u>\$25,138,000</u>	<u>\$19,740,000</u>

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
May 31, 1980 and 1979

Note 10 Financial Statements of Parent Company (continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	May 31	
	1980	1979
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,248,000	\$ 2,257,000
Payable to third-party payors within one year	95,000	115,000
Long-term debt payable within one year (Note 3)	216,000	216,000
Income taxes payable	659,000	868,000
Deferred income taxes	247,000	143,000
Total current liabilities	4,463,000	3,599,000
Payable to Wholly-Owned Subsidiaries (Schedule IV)	8,856,000	5,174,000
Long-Term Debt Due After One Year (Note 3)	3,903,000	4,095,000
Commitments and contingent liabilities (Note 5)		
Stockholders' Equity (Note 4):		
Common stock, \$.10 par value; Authorized 20,000,000 shares; Issued and outstanding 3,233,684 shares, 1980 and 1,616,842 shares, 1979	323,000	162,000
Additional paid-in capital	2,431,000	2,592,000
Retained earnings	5,162,000	3,118,000
	<u>7,916,000</u>	<u>5,872,000</u>
	<u>\$25,138,000</u>	<u>\$18,740,000</u>

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

May 31, 1980 and 1979

Note 10 Financial Statements of Parent Company (continued)

Comprehensive Care Corporation

Statement of Earnings

	Year Ended May 31	
	1980	1979
Revenue		
Operating (Note 1)	\$25,329,000	\$18,397,000
Other	114,000	98,000
	<u>25,443,000</u>	<u>18,493,000</u>
Costs and Expenses		
Operating	16,596,000	11,521,000
General, administrative and marketing	6,954,000	5,227,000
Depreciation and amortization (Notes 1, 5 and Schedule VI) ..	479,000	434,000
Interest	397,000	330,000
	<u>24,426,000</u>	<u>17,512,000</u>
Income before income taxes and equity in net earnings of subsidiaries	1,017,000	981,000
Income taxes	506,000	490,000
Income before equity in net earnings of subsidiaries	511,000	491,000
Equity in net earnings of subsidiaries	2,114,000	1,380,000
Net Earnings	<u>\$ 2,625,000</u>	<u>\$ 1,871,000</u>

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

May 31, 1980 and 1979

Note 10 Financial Statements of Parent Company (continued)

Comprehensive Care Corporation
Statement of Changes in Financial Position

	Year Ended May 31	
	1980	1979
Financial Resources Provided by:		
Operations		
Net earnings	\$ 2,625,000	\$ 1,871,000
Items not requiring (providing) outlay of working capital:		
Depreciation and amortization of property and equipment	479,000	434,000
Equity in earnings of subsidiaries	(4,218,000)	160,000
Deferred income tax	(120,000)	161,000
Write-off of goodwill	—	135,000
Working capital provided from (required for) operations	(1,234,000)	2,761,000
Disposal of property and equipment	11,000	412,000
Increase in amounts due to subsidiaries	3,682,000	91,000
Issuance of common stock	—	788,000
Additional long-term debt due after one year	—	2,525,000
	<u>2,459,000</u>	<u>6,577,000</u>
Financial Resources Used For:		
Increase in notes receivable	5,000	272,000
Net transfer of equipment from (to) wholly-owned subsidiary	(23,000)	80,000
Purchase of property and equipment	1,447,000	2,600,000
Reduction of long-term debt due after one year	192,000	1,095,000
Dividends	518,000	246,000
Other applications	69,000	131,000
	<u>2,208,000</u>	<u>4,424,000</u>
Increase in Working Capital	<u>\$ 251,000</u>	<u>\$ 2,153,000</u>
Summary of Changes in Components of Working Capital:		
Increase (Decrease) in Current Assets:		
Cash	\$ (565,000)	\$ 658,000
Accounts receivable	1,525,000	2,568,000
Prepaid expenses	155,000	482,000
	<u>1,115,000</u>	<u>3,708,000</u>
Increase (Decrease) in Current Liabilities:		
Accounts payable and accrued liabilities	989,000	1,306,000
Payable to third-party payors within one year	(20,000)	57,000
Long-term payable within one year	—	(155,000)
Income taxes payable	(105,000)	347,000
	<u>864,000</u>	<u>1,555,000</u>
Increase in Working Capital	<u>\$ 251,000</u>	<u>\$ 2,153,000</u>

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

May 31, 1980 and 1979

Note 11 Supplementary Income Statement Information

The following amounts were charged to costs and expenses:

	Company		Consolidated	
	1980	1979	1980	1979
Depreciation and amortization of property, plant and equipment	\$ 479,000	\$ 434,000	\$ 863,000	\$ 715,000
Taxes other than income taxes:				
Payroll	\$ 735,000	\$ 409,000	\$ 1,053,000	\$ 371,000
Real and personal property	\$ 48,000	\$ 79,000	\$ 93,000	\$ 137,000
Other	\$ 10,000	\$ --	\$ 27,000	\$ 23,900
Rents	\$ 451,000	\$ 271,000	\$ 539,000	\$ 524,000
Advertising	\$ 2,184,000	\$ 1,322,000	\$ 2,648,000	\$ 1,910,000

There were no research and development costs paid during the above years. Royalties paid were insignificant.

Note 12 Accounts Payable and Accrued Liabilities

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

	Company		Consolidated	
	1980	1979	1980	1979
	\$ 137,000	\$ 105,000	\$ 279,000	\$ 218,000

NEURO AFFILIATES COMPANY
(A Joint Venture)

BALANCE SHEET

ASSETS

	May 31	
	<u>1980</u>	<u>1979</u>
CURRENT ASSETS		
Cash	\$ 365,000	\$ 333,000
Accounts receivable, less allowance for doubtful accounts of \$143,000 and \$82,000	1,297,000	1,108,000
Prepaid expenses, supplies and other assets	<u>121,000</u>	<u>73,000</u>
	<u>1,783,000</u>	<u>1,514,000</u>
EQUIPMENT AND IMPROVEMENTS, at cost (Notes 1 and 4)		
Furniture and equipment	314,000	270,000
Building improvements	169,000	158,000
Capitalized building leases	<u>2,299,000</u>	<u>2,299,000</u>
	<u>2,782,000</u>	<u>2,727,000</u>
Less accumulated depreciation and amortization	<u>1,190,000</u>	<u>1,013,000</u>
	<u>1,592,000</u>	<u>1,714,000</u>
OTHER ASSETS	<u>6,000</u>	<u>7,000</u>
	<u><u>\$3,381,000</u></u>	<u><u>\$3,235,000</u></u>

LIABILITIES AND PARTNERS' CAPITAL

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 302,000	\$ 298,000
Estimated amounts due under insurance programs (Note 2)	222,000	146,000
Amounts due (from) to affiliated Companies, net (Note 3)	134,000	51,000
Capitalized lease obligations, current portion (Note 4)	<u>80,000</u>	<u>73,000</u>
Total current liabilities	738,000	568,000
CAPITALIZED LEASE OBLIGATIONS (Note 4)	1,779,000	1,859,000
PARTNERS' CAPITAL	<u>864,000</u>	<u>808,000</u>
	<u><u>\$3,381,000</u></u>	<u><u>\$3,235,000</u></u>

See accompanying notes.

STATEMENT OF INCOME AND PARTNERS' CAPITAL

See accompanying notes.

STATEMENT OF CHANGES IN FINANCIAL POSITION

See accompanying notes.

NEURO AFFILIATES COMPANY
(A Joint Venture)

NOTES TO FINANCIAL STATEMENTS

May 31, 1980 and 1979

Note 1 — The Company and Summary of Significant Accounting Policies

The Company — In November, 1972, Hospital Affiliates International, Inc., (HAI), of Nashville, Tennessee, and Comprehensive Care Corporation (CompCare) of Newport Beach, California, entered into an agreement to form a joint venture, Neuro Affiliates Company (NAC). NAC operates two psychiatric hospitals in California. Each partner manages one of the hospitals. The Woodview-Calabasas facility is managed by HAI and the Crossroads facility is managed by CompCare. The two partners share equally in the results of the joint venture operations.

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 responsibility of the partners.

Depreciation — The cost of equipment and building improvements is depreciated or amortized over the estimated useful lives of the assets (five to twelve years) using the straight-line method of depreciation. Capitalized leases are amortized over the life of the lease using the straight-line method of depreciation.

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 for these contingencies.

Note 3 — Transactions with Partners

Rentals — The Company reimburses annual rentals of \$194,000 to Comprehensive Care Corporation and \$67,000 to Woodview Hospital, a subsidiary of Hospital Affiliates International, Inc., for the use of hospital facilities.

Management Fees — Costs and expenses for 1980 and 1979, include \$36,000 and \$43,000 paid to Comprehensive Care Corporation and \$140,000 and \$103,000 to Hospital Affiliates International, Inc., for administrative and other services.

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 parties.

NEURO AFFILIATES COMPANY
(A Joint Venture)

NOTES TO FINANCIAL STATEMENTS (Continued)

May 31, 1980 and 1979

Note 4 – Commitments

The following is a schedule of future minimum lease payments under capital leases and the present value of the net minimum lease payments as of May 31, 1980:

Year Ending May 31	
1981	\$ 245,000
1982	245,000
1983	245,000
1984	245,000
1985	245,000
Later years	<u>2,107,000</u>
Net minimum lease payments	3,332,000
Less amount representing interest	<u>1,473,000</u>
	<u>\$1,859,000</u>

Contingent rent associated with capital leases was \$17,000 in 1980 and 1979.

SCHEDULE III

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

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

Years Ended May 31, 1980 and 1979

Name of issuer and description of investment	Balance at beginning of period		Additions		Distribution of earnings (loss) by affiliates in which earnings (loss) were taken up	Deductions		Balance at end of period		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		Other	Percent of ownership			
	Percent of ownership	Amount		Percent of ownership				Amount		
									Percent of ownership	
Year Ended May 31, 1980										
NPHS, Inc. investment in joint venture in Neuro Affiliates Company, a partnership	<u>50%</u>	<u>\$ 454,000</u>	<u>\$1,063,000</u>		<u>\$1,035,000</u>			<u>50%</u>	<u>\$ 432,000</u>	
Year Ended May 31, 1979										
NPHS, Inc. investment in joint venture in Neuro Affiliates Company, a partnership	<u>50%</u>	<u>\$ 392,000</u>	<u>\$ 476,000</u>		<u>\$ 464,000</u>			<u>50%</u>	<u>\$ 404,000</u>	

SCHEDULE III (Continued)

COMPREHENSIVE CARE CORPORATION

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

Year Ended May 31, 1950

Name of issuer and description of investment	Balance at beginning of period		Additions			Distribution of earnings (loss) by affiliates in which earnings (loss) were taken up	Deductions		Balance at end of period		Dividends received during the period from investments not accounted for by the equity method
	Number of Shares	Amount	Equity taken up in earnings (loss) of affiliates for the period	Other			Other		Number of Shares	Amount	
				Number of Shares	Amount		Number of Shares	Amount			
Consolidated Subsidiaries											
NPHS, Inc. common stock par value \$10 a share	320	\$6,961,000	\$3,733,000 (a)						320	\$10,694,000	
Terracina Convalescent Hospital & Home, Inc. common stock, par value \$100 a share	50	58,000							50	58,000	
Trinity Oaks Hospital, Inc. common stock, par value \$1 a share	10,002	(129,000)	174,000						10,002	45,000	
CAREUNIT, Inc. common stock, par value \$1 a share ..	1,000	267,000	335,000						1,000	602,000	
CareManor Hospital of Virginia, Inc., common stock, no par			(24,000)	100	\$1,000				100	(23,000)	
		<u>\$7,157,000</u>	<u>\$4,218,000</u>		<u>\$1,000</u>					<u>\$11,378,000</u>	

(a) Includes Joint Venture Earnings before taxes on income of \$1,063,000.

SCHEDULE III (Continued)

COMPREHENSIVE CARE CORPORATION

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

Year Ended May 31, 1970

Name of issuer and description of investment	Balance at beginning of period		Additions		Distribution of earnings (loss) by affiliates in which earnings (loss) were taken up	Deductions		Balance at end of period		Dividends received during the period from investments not accounted for by the equity method	
	Number of Shares	Amount	Equity taken up in earnings (loss) of affiliates for the period	Other		Other	Number of Shares	Amount	Number of Shares		Amount
Consolidated Subsidiaries											
NPHS, Inc. common stock par value \$10 a share	320	\$4,302,000	\$2,650,000(a)					320	* 8,961,000		
Terracina Convalescent Hospital & Home, Inc. common stock, par value \$100 a share	50	58,000						50	58,000		
Trinity Oaks Hospital, Inc. common stock, par value \$1 a share	10,002	(74,000)	(55,000)					10,002	(129,000)		
CAREUNIT, Inc. common stock, par value \$1 a share	1,000	<u>3,031,000</u>	<u>154,000</u>				(2,918,000)(b)	1,000	<u>267,000</u>		
		<u>\$7,317,000</u>	<u>\$2,758,000</u>				<u>\$(2,918,000)</u>		<u>\$ 7,157,000</u>		

(a) Includes joint venture earnings before taxes on income of \$478,000.

(b) Transfer to parent company.

SCHEDULES IV and X

COMPREHENSIVE CARE CORPORATION
INDEBTEDNESS OF AND TO AFFILIATES
Years Ended May 31, 1980 and 1979

<u>Name of Affiliate</u>	<u>Balance receivable (payable) at beginning of period</u>	<u>Balance receivable (payable) at end of period</u>
Year ended May 31, 1980:		
Amounts eliminated in consolidation:		
Wholly-owned subsidiaries:		
NPHS, Inc.	\$(5,350,000)	\$(8,678,000)
Terracina Convalescent Hospital & Home, Inc.	(64,000)	(64,000)
Trinity Oaks Hospital, Inc.	380,000	267,000
CAREUNIT, Inc.	(140,000)	(461,000)
CareManor Hospital of Virginia, Inc.	—	23,000
Total eliminated in consolidation	<u>\$(5,174,000)</u>	<u>\$(8,913,000)</u>
Amount not eliminated in consolidation		
Neuro Affiliates Company	—	57,000 (b)
Total indebtedness of and to Affiliates	<u>\$(5,174,000)</u>	<u>\$(8,856,000)</u>
Year ended May 31, 1979:		
Amounts eliminated in consolidation:		
Wholly-owned subsidiaries:		
NPHS, Inc.	\$(3,183,000)	\$(5,350,000)
Terracina Convalescent Hospital & Home, Inc.	(64,000)	(64,000)
Trinity Oaks Hospital, Inc.	50,000	380,000
CAREUNIT, Inc.	(1,887,000)	(140,000)
	<u>(5,084,000)</u>	<u>(5,174,000)</u>
Neuro Affiliates Company (50% interest)	9,000 (a)	—
Total eliminated in consolidation	<u>(5,075,000)</u>	<u>(5,174,000)</u>
Amount not eliminated in consolidation		
Neuro Affiliates Company	(8,000) (b)	—
Total indebtedness of and to Affiliates	<u>\$(5,083,000)</u>	<u>\$(5,174,000)</u>

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

(b) Included in accounts receivable on balance sheet of Comprehensive Care Corporation and on balance sheet of Comprehensive Care Corporation and Subsidiaries.

SCHEDULE V

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

PROPERTY, PLANT AND EQUIPMENT

Years Ended May 31, 1980 and 1979

Classification	Balance Beginning Of Period, As Previously Reported	Adjustments to Previously Reported Amount(a)	Balance Beginning Of Period, As Adjusted	Additions At Cost	Sales, Retirements and Abandonments	Other Changes	Balance End Of Period
Company:							
Year ended May 31, 1980							
Land and improvements	\$ 532,000		\$ 532,000				\$ 532,000
Buildings and improvements	2,138,000		2,138,000	\$ 301,000		\$ (5,000)(b)	2,434,000
Furniture and equipment	1,548,000		1,548,000	787,000	\$ 154,000	(15,000)(b)	2,164,000
Leasehold improvements	202,000		202,000	359,000		(3,000)(c)	558,000
Capital leases	1,591,000		1,591,000				1,591,000
	<u>\$ 6,009,000</u>		<u>\$ 6,009,000</u>	<u>\$ 1,447,000</u>	<u>\$ 154,000</u>	<u>\$ (23,000)</u>	<u>\$ 7,279,000</u>
Year ended May 31, 1979							
Land and improvements			\$ 210,000	\$ 387,000	\$ 65,000		\$ 532,000
Buildings and improvements			957,000	1,509,000	385,000	\$ 57,000 (b)	2,138,000
Furniture and equipment			1,021,000	670,000	229,000	141,000 (c)	1,546,000
Leasehold improvements			168,000	34,000		(57,000)(b)	202,000
Capital leases			1,591,000				1,591,000
			<u>\$ 3,947,000</u>	<u>\$ 2,600,000</u>	<u>\$ 679,000</u>	<u>\$ 141,000</u>	<u>\$ 6,009,000</u>
Consolidated:							
Year ended May 31, 1980							
Land and improvements	\$ 892,000		\$ 892,000				\$ 892,000
Buildings and improvements	3,016,000		3,016,000	\$ 374,000	\$ 19,000	\$ (5,000)(b)	3,368,000
Furniture and equipment	2,164,000		2,164,000	882,000	161,000	8,000 (b)	2,893,000
Leasehold improvements	202,000		202,000	359,000		(3,000)(b)	558,000
Capital leases	4,831,000	\$ 646,000	5,477,000				5,477,000
	<u>\$11,105,000</u>	<u>\$ 646,000</u>	<u>\$11,751,000</u>	<u>\$ 1,615,000</u>	<u>\$ 180,000</u>	<u>\$ —</u>	<u>\$13,186,000</u>
Year ended May 31, 1979							
Land and improvements			\$ 473,000	\$ 484,000	\$ 65,000	\$ —	\$ 892,000
Buildings and improvements			1,540,000	1,855,000	424,000	45,000 (b)	3,016,000
Furniture and equipment			1,714,000	743,000	251,000	(42,000)(b)	2,164,000
Leasehold improvements			168,000	37,000		(3,000)(b)	202,000
Capital leases			4,831,000				4,831,000
			<u>\$ 8,726,000</u>	<u>\$ 3,119,000</u>	<u>\$ 740,000</u>	<u>\$ —</u>	<u>\$11,105,000</u>

(a) Refer to Footnote 1, Notes to Consolidated Financial Statements

(b) Reclassifications

(c) Net transfers to/from wholly-owned subsidiaries

SCHEDULE VI

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT
Years Ended May 31, 1980 and 1979

Classification	Balance Beginning Of Period, As Previously Reported	Adjustments To Previously Reported Amount(a)	Balance Beginning Of Period, As Adjusted	Additions At Cost	Sales, Retirements and Abandonments	Other Changes	Balance End Of Period
Company:							
Year ended May 31, 1980							
Buildings and improvements .. .	\$ 188,000		\$ 188,000	\$ 99,000			\$ 285,000
Furniture and equipment	517,000		517,000	271,000	\$ 143,000		645,000
Leasehold improvements	86,000		86,000	30,000			116,000
Capital leases .. .	327,000		327,000	79,000			406,000
	<u>\$ 1,116,000</u>		<u>\$ 1,116,000</u>	<u>\$ 479,000</u>	<u>\$ 143,000</u>		<u>\$ 1,452,000</u>
Year ended May 31, 1979							
Buildings and improvements	\$ 200,000		\$ 200,000	\$ 83,000	\$ 97,000		\$ 136,000
Furniture and equipment .. .	410,000		410,000	216,000	170,000	\$ 61,000 (b)	517,000
Leasehold improvements	31,000		31,000	55,000			86,000
Capital leases .. .	247,000		247,000	80,000			327,000
	<u>\$ 888,000</u>		<u>\$ 888,000</u>	<u>\$ 434,000</u>	<u>\$ 267,000</u>	<u>\$ 61,000</u>	<u>\$ 1,116,000</u>
Consolidated:							
Year ended May 31, 1980							
Buildings and improvements .. .	\$ 347,000		\$ 347,000	\$ 217,000	\$ 17,000		\$ 547,000
Furniture and equipment .. .	879,000		879,000	347,000	145,000		1,081,000
Leasehold improvements .. .	86,000		86,000	30,000			116,000
Capital leases .. .	1,901,000	\$ 207,000	2,108,000	269,000			2,377,000
	<u>\$ 3,213,000</u>	<u>\$ 207,000</u>	<u>\$ 3,420,000</u>	<u>\$ 863,000</u>	<u>\$ 162,000</u>		<u>\$ 4,121,000</u>
Year ended May 31, 1979							
Buildings and improvements .. .			\$ 329,000	\$ 144,000	\$ 128,000		\$ 347,000
Furniture and equipment .. .			788,000	278,000	187,000		879,000
Leasehold improvements .. .			31,000	55,000			86,000
Capital leases .. .			1,663,000	238,000			1,901,000
			<u>\$ 2,811,000</u>	<u>\$ 715,000</u>	<u>\$ 313,000</u>		<u>\$ 3,213,000</u>

(a) Refer to Footnote 1, Notes to Consolidated Financial Statements

(b) Net transfers from wholly-owned subsidiaries

SCHEDULE VII

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

INTANGIBLE ASSETS, PREOPERATING EXPENSES AND SIMILAR DEFERRALS

Years Ended May 31, 1980 and 1979

Classification	Balance at beginning of period	Additions at cost	Deductions		Balance at end of period
			Charged to costs and expenses	Charged to other accounts	
Company:					
Year ended May 31, 1980					
Costs in excess of net assets of purchased businesses	<u>\$382,000</u>				<u>\$382,000</u>
Year ended May 31, 1979					
Costs in excess of net assets of purchased businesses	<u>\$517,000</u>		<u>\$135,000</u>		<u>\$382,000</u>
Consolidated:					
Year ended May 31, 1980					
Costs in excess of net assets of purchased businesses	<u>\$382,000</u>				<u>\$382,000</u>
Covenant not to compete		<u>\$ 24,000</u>	<u>\$ 3,000</u>		<u>16,000</u>
	<u>\$382,000</u>	<u>\$ 24,000</u>	<u>\$ 8,000</u>		<u>\$398,000</u>
Year ended May 31, 1979					
Costs in excess of net assets of purchased businesses	<u>\$517,000</u>		<u>\$135,000</u>		<u>\$382,000</u>

SCHEDULE XII

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
Years Ended May 31, 1980 and 1979

Description	Balance at beginning of period	Additions		Deductions		Balance at end of period
		Charged to revenue	Charged to other accounts	Write-off of accounts	Other	
Allowance for doubtful accounts (deducted from accounts receivable in the balance sheet):						
Company:						
Year ended May 31, 1980	\$286,000	\$453,000	\$ 93,000(b)	\$ 519,000		\$313,000
Year ended May 31, 1979	\$134,000	\$358,000	\$ 26,000(b) 74,000(a) 103,000(c)	\$ 409,000		\$286,000
Consolidated:						
Year ended May 31, 1980 . . .	\$444,000	\$862,000	\$ 16,000(c) 219,000(b)	\$1,029,000		\$512,000
Year ended May 31, 1979 . . .	\$348,000	\$662,000	\$ 73,000(b) 105,000(c)	\$ 744,000		\$444,000

(a) Transfer from wholly-owned subsidiary

(b) Amounts are recoveries on accounts previously charged to this reserve

(c) Acquired with purchase of new facility

Comprehensive Care Corporation and Subsidiaries
Calculation of Primary Earnings Per Share

	Year Ended May 31				
	1980	1979	1978	1977	1976
Net earnings applicable to common stock (a)	<u>\$2,625,000</u>	<u>\$1,871,000</u>	<u>\$ 903,000</u>	<u>\$ 831,000</u>	<u>\$ 854,000</u>
Average number of shares of common stock and common stock equivalents outstanding:					
Average number of shares of common stock outstanding	3,233,684	3,194,232	3,113,588	2,618,256	2,253,602
Common stock equivalents - convertible preferred stock					7,812
Dilutive effect of stock options and warrants after application of treasury stock method (b)					
Average number of shares of common stock and common stock equivalents outstanding:	<u>3,233,684</u>	<u>3,194,232</u>	<u>3,113,688</u>	<u>2,618,256</u>	<u>2,261,414</u>
Primary earnings per share	<u>\$.81</u>	<u>\$.59</u>	<u>\$.29</u>	<u>\$.32</u>	<u>\$.39</u>

Calculation of Fully Diluted Earnings Per Share

	Year Ended May 31				
	1980	1979	1978	1977	1976
Net earnings applicable to common stock on a fully diluted basis (c)	<u>\$2,703,000</u>	<u>\$1,900,000</u>	<u>\$ 903,000</u>	<u>\$ 831,000</u>	<u>\$ 878,000</u>
Average number of shares outstanding on a fully diluted basis:					
Shares used in calculating primary earnings per share	3,233,684	3,194,232	3,113,688	2,618,256	2,261,414
Additional average number of common stock outstanding assuming conversion of new preferred stock				427,001	732,000
Additional average number of common stock outstanding assuming conversion of 9% convertible subordinated debentures	316,279	115,248			
Dilutive effect of stock options and warrants after application of treasury stock method (b)					
Average number of shares outstanding on a fully diluted basis	<u>3,549,963</u>	<u>3,309,480</u>	<u>3,113,688</u>	<u>3,045,257</u>	<u>2,993,414</u>
Fully diluted earnings per share	<u>\$.76</u>	<u>\$.57</u>	<u>\$.29</u>	<u>\$.27</u>	<u>\$.29</u>

(a) Net earnings per Consolidated Summary of Earnings
Less 8% dividend on new preferred stock

\$2,625,000	\$1,871,000	\$ 903,000	\$ 831,000	\$ 878,000
-	-	-	-	24,000
<u>\$2,625,000</u>	<u>\$1,871,000</u>	<u>\$ 903,000</u>	<u>\$ 831,000</u>	<u>\$ 854,000</u>

(b) The dilutive effect of stock options and warrants was less than 3% for 1976 through 1980; therefore, this effect was not shown above.

(c) Net earnings per Consolidated Summary of Earnings
Add interest expense attributable to 9% convertible subordinated debentures, net of applicable income taxes

\$2,625,000	\$1,871,000			
78,000	29,000			
<u>\$2,703,000</u>	<u>\$1,900,000</u>			

Exhibit A

STANDARD LEASE

DePAUL MEDICAL BUILDING

THIS LEASE, made and entered into this 27th day of August, 19 79, by and between DePAUL MEDICAL OFFICE BUILDING MANAGEMENT CORPORATION, a Missouri Corporation, herein called "Lessor", and/or "Landlord" and COMPREHENSIVE CARE CORPORATION, herein called "Tenant", and/or "Lessee" a Delaware corporation,

WITNESSETH THAT:

ARTICLE I—Premises

Lessor does hereby lease to Tenant and Tenant does hereby take from Lessor, Suite X88 ~~Room 808~~ ^{of the 6th} all of the fifth ~~floor~~ and a portion/ Floor (Shown on Exhibit A, attached hereto and incorporated by reference herein) of Lessor's building known as DePaul Medical Building, located at 12255 DePaul Drive, Bridgeton, Missouri 63044.

ARTICLE II—Term

The Lease term shall be for five years (or until sooner terminated as herein provided), commencing on the 1st day of January, 1980 and ending on the 31st day of December, 1984.

Tenant agrees that in the event of inability of Lessor, for causes beyond Lessor's control, to deliver possession of the premises at the commencement of the term, Lessor shall not be liable for any damage thereby. If Lessor fails to deliver possession of the premises within ninety (90) days after the commencement of the term then this lease shall be null and void and of no further force and effect at the option of Tenant and Lessor shall then repay to Tenant any amounts paid by Tenant to Lessor. The Tenant shall not be liable for any rent until:

1. In the event that Tenant shall prepare his premises for occupancy pursuant to Article XIX, the day on which Tenant takes actual possession of the premises. Actual possession by tenant shall mean the earlier of the time when the Tenant's personnel first occupy ~~XXXX~~ the premises for carrying on the normal functions of it's business in the premises or June 1, 1980 ~~XXX~~
2. ~~In the event that Lessor shall prepare Tenant's premises for occupancy pursuant to Article XIX, the day on which this lease shall commence pursuant to Exhibit B, attached hereto and incorporated hereinto by Article XIX.~~

ARTICLE III—Use

Tenant shall use and occupy the premises for general office and medical purposes, including and related training, research and education, management of health care service enterprises and for no other purpose except with the consent of the Lessor. Tenant shall be permitted to furnish such services to Tenant's patients (including patients referred to Tenant by other physicians or dentists) as are normally offered by physicians or dentists within the same specialty field as Tenant, however, Tenant agrees that there shall not be furnished in the office space rented to the Tenant herein, other services different from the services specified above, which are in direct competition with those services offered patients by the adjacent DePaul Community Health Center, or any of it's departments, unless prior written consent is obtained by both the said Hospital and the Lessor. ~~Should a dispute arise between Lessor and Tenant as to whether or not services are in direct competition with DePaul Community Health Center, then Lessor, at it's option, may terminate the lease upon sixty (60) days written notice to Tenant and such termination shall not constitute a breach of this lease and in the event of~~

~~such termination the security deposit required by Article XX shall be applied to the last month's rent as if the lease term had expired~~

Tenant shall not use the premises for any unlawful, illegal or immoral purposes or act, shall not commit or permit any waste or damage to the premises. Lessor and Tenant shall comply with and obey all laws, regulations or lawful orders of any Governmental authority or agency and building rules and regulations (which shall apply to all Tenants in the use of common areas and premises) which are attached to and made a part hereof, as reasonably changed or modified from time to time by Lessor on reasonable notice to Tenant all of which are and will be part of this lease; shall not do or permit anything to be done in or about the premises which will in any way obstruct or interfere with the right of other tenants or occupants of the buildings, or injure or annoy them.

Tenant will not allow the premises to be used for the performance of abortions or euthanasia. Nor shall the Tenant allow the premises to be used for the performance of any other medical or surgical procedures, including direct sterilization, which contravene the health care policies of DePaul Community Health Center, as expressed in the Corporate Medical and Dental Staff By-Laws and the Rules and Regulations of said Hospital, which are in force at the execution of this lease or at any renewal date hereof and are incorporated by reference herein. The performance of any of the aforesaid prohibited procedures on the premises with the knowledge and acquiescence of the Tenant (as determined under the procedures set out in this Article), shall constitute a default hereunder and render this lease null and void and Tenant shall forthwith surrender possession of said premises to Lessor. The performance of medical or surgical procedures on the premises in contravention of the health care policies of said Hospital, including direct sterilization, as aforesaid, (as determined under the procedures set out in this Article), shall likewise constitute a default hereunder and render this lease null and void and Tenant shall forthwith surrender possession of said premises to Lessor at the option of the Landlord.

It is hereby expressly agreed by the Tenant that ^{any} questions which may arise concerning the performance of medical or surgical procedures consistent with the health care provisions of said Hospital shall be determined in the same manner as any other question which could adversely affect his appointment to or status as a member of the Medical Staff of said Hospital in accordance with the Medical and Dental Staff By-Laws of said Hospital.

A determination made in accordance with the procedures set forth in the Medical and Dental Staff By-Laws of said Hospital that medical-surgical procedures were performed in contravention of the health care policies of said Hospital shall be final and shall constitute conclusive evidence of a default of this lease by the Tenant and Tenant shall forthwith, at Lessor's request, surrender said premises to Lessor.

Lessor shall not be responsible to Tenant for the non-performance by any other Tenant or occupant of the building of any part of the rules and regulations hereto attached, but agrees to take reasonable measures to assure such other Tenants' performance.

Changes in the building rules and regulations shall not be effective until sixty (60) days after notice to Tenant. If Tenant shall object to any change in the building rules and regulations within the sixty (60) day notice period and Lessor has not revoked such proposed rule change, then Tenant may terminate this lease upon sixty (60) days written notice to Lessor. Termination pursuant to this paragraph shall not constitute a breach of this lease and in the event of such termination, the security deposit required by Article XX shall be applied to the last month's rent as if the lease term had expired. Only reasonable changes in building rules and regulations shall bind Tenant. Tenant may elect to make such termination effective as of any date within one year after the effectiveness of the rule or regulation objected to.

ARTICLE IV—Rent

Tenant shall pay as base rent for said premises the sum of \$164,141.25 per annum, payable in equal monthly installments of \$13,678.44 in advance on the first day of each calendar month of the term at the office of the Lessor or such other place as Lessor may direct. In the event the tenancy commences on a day other than the first day of any calendar month, Tenant shall pay the pro rata share of rent due for the unexpired time in the month in addition to the rent for the full month following such part of a month. In addition to the base rental set out above, Tenant agrees to pay the following as additional rental:

- a. In the event in any calendar year, the Landlord's real estate taxes and assessments (including real estate taxes and assessments paid by landlord to or on behalf of the owner of the real estate or owner's lessees and sub-lessees) for the building shall exceed the sum of real estate taxes and assessments of the calendar year 1980

hereafter referred to as the (base year) or should there be any increase in the actual utility costs attributable to the building in which these premises are located over the base year of utility costs, then the Tenant shall reimburse landlord for the succeeding twelve (12) month period or to the expiration date of this lease, whichever first occurs, an amount per month equal to one-twelfth (1/12) of such proportion of the excess over the base year's real estate taxes and assessments, or increase in the costs of utility services as the area of the space hereby rented, bears to the total net rentable area of the building. Utilities shall include only electricity, gas or other cooling or heating fuels, and water.

- its proportionate share of
- b. Tenant shall pay to the Lessor ~~for~~ increases in all operating costs in excess of operating costs attributable to the building in which these premises are located over the base year operating costs. Operating costs shall be all costs except real estate taxes and assessments and utility service costs described in sub-paragraph (a) above. Such excess rental shall be limited by the Metropolitan St. Louis Standard Statistical Area Consumer Price Index which increases shall be computed by dividing the base year operating costs by the Index number for the month the lease term commences as appears in the column "All Items" in the said Consumer Price Index, and then multiplying that amount by corresponding index number for the month that precedes the commencement of each subsequent lease year of this lease. Said Consumer Price Index shall be adjusted for any change in the form or basis (including the base year utilized in the Bureau of Labor Statistics) of calculating the Consumer Price Index from the method utilized at the date this lease is signed. Any such increase in rent shall be paid by Tenant in the same manner as in paragraph "c" above. Operating costs shall mean the usual and normal expenses of a medical office building specifically excluding capital expenses, tenant alterations, depreciation, interest and executive salaries.
 - c. For the purpose of determining this calculation, it is hereby agreed that the area of the demised premises is 18,759 square feet, and the rentable area of the building is 97,154 square feet.
 - d. During the month of January of each calendar year after the expiration of the third lease year of this lease, Lessor shall furnish to Tenant a statement of additional rental to be paid pursuant to paragraphs (a) and (b) of this Article. This statement shall be verified by the Lessor's independent accountant and shall state, by category, the utility costs, operating costs, and real estate taxes and assessments for both the base year and the calendar year just expired. In no event shall Tenant be liable for any additional rent until receipt of such a statement.
 - e. In no event shall the annual rent be less than the Base Rent hereinabove set forth.
 - f. In no event shall any increase in rental be charged against Tenant until the expiration of the third lease year of this lease. This subparagraph f. shall not apply to any renewal option period.

ARTICLE V—Services, Alterations, and Repairs

Lessor agrees to furnish to the building of which the premises are a part: water, sanitary services, electricity, elevator service, janitorial service and year-round heating, air conditioning as are reasonably necessary for the comfortable use and occupation of the premises on all generally recognized business days, but not on Sundays and legal holidays. No failure to furnish any of the foregoing utilities or services, except as the result of neglect or willful conduct of Lessor, shall be construed as an eviction of Tenant, or work as abatement of rent, or in any way render Lessor liable for damages either to person or property suffered by Tenant, its employees, licensees or invitees by reason of any such failure, or release Tenant from the prompt fulfillment of any of its covenants under this lease.

Lessor reserves the right to suspend service of the heating, elevators, plumbing, electrical, air conditioning and other mechanical systems when necessary by reason of Governmental regulations, civil commotion or riots, accident or emergency or for repairs, alterations, or improvements which are in the reasonable judgment of Lessor desirable or necessary or for any other reason beyond the power or control of Lessor without liability and damages therefor. Except in cases of emergency or in those cases beyond the control of Lessor, Lessor shall obtain permission of Tenant to suspend such services.

Tenant, at his expense, shall furnish any facilities for compressed air or similar service for the normal use of the demised premises in the practice of medicine or dentistry. Any such facilities shall be installed only with Lessor's written permission first had and under Lessor's direction.

Lessor shall not be obligated to make any alterations, additions, repairs, improvements or decorations to the premises except as specifically agreed in writing by and between Lessor and Tenant. In the event any such alterations, additions, repairs, improvements, or decorations are made upon written request by Tenant, approved by Lessor, such alterations, repairs, additions, improvements or decorations shall be made by Lessor, or by someone under Lessor's supervision and control, at the sole expense of Tenant, and upon completion thereof by Lessor, Tenant shall promptly remit the amount of such expense or cost. No alterations or additions shall be made to the premises by Tenant nor shall Tenant affix or cause to be affixed to the buildings or premises, including the windows, any sign, advertisement or notice without the written consent of Lessor. In the absence of a written agreement to the contrary, any alterations, repairs or improvements except unattached movable trade fixtures, office furniture and equipment of Tenant, shall be and remain the property of Lessor. Tenant however, shall have the right to remove trade fixtures, office furniture and equipment installed by him.

Lessor shall however, make all necessary repairs and replacements, to:

- a. exterior of building;
- b. heating and air-conditioning equipment;
- c. wiring and plumbing;
- d. elevators;
- e. interior common areas;
- f. electrical and mechanical systems, including light bulbs in building standard fixtures.

Lessor reserves the right, at any time, without abatement of rent, to: enter and inspect the premises; to run wires, tubes, and other conduits through, and to make repairs, alterations, and additions to the premises, deemed necessary by landlord for the safety, preservation, or restoration of the building; and during the last sixty (60) days of the term to exhibit the premises to prospective Tenants, provided, however, that Lessor shall do such work and shall exhibit such premises with as little interference to Tenant as possible under the circumstances, and where possible with Tenant's consent, but in all instances with at least 30 minutes advance notice of such activity.

From and after the commencement of the term, Tenant shall at all times at Tenant's sole cost and expense, keep the Tenant premises and every part thereof in good condition and repair, ordinary wear and tear and casualty excepted, except as otherwise provided in this lease. Tenant shall not be responsible for repairs necessitated by the acts or failure to act of Lessor's janitorial service.

ARTICLE VI—Liens

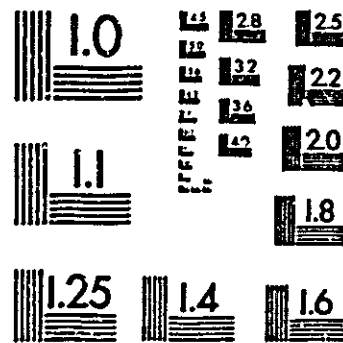
Tenant shall keep the premises free from any liens, ^{caused by its acts or failure to act} including, but not limited to, mechanic's liens. In the event any lien attaches to the premises by virtue of an act or failure to act on the part of Tenant, Lessor shall have the right, but no obligation, to pay the amount of such lien to cause its release and such amount shall be considered additional rent to be paid by Tenant on demand with interest eight percent (8%) per annum from the day of payment of the lien item by Lessor. Lessor shall give Tenant notice of any such lien and the opportunity to defend such lien claim.

ARTICLE VII—Assignment and Sub-Letting

Tenant shall not assign this lease nor sub-let the premises in whole or in part without Lessor's written consent, ^{which shall not be unreasonably withheld.} Notwithstanding Lessor's written consent, Tenant shall continue to be primarily responsible for the covenants and agreements (including without limitation the payment of rent) herein through the active terms of this lease as though Tenant were in physical possession of the premises.

ARTICLE VIII—Lessor's Non-Liability and Insurance

Lessor shall not be liable to Tenant ~~or any other person or corporation, including employees,~~ for any damage to ~~the~~ ^{cooperating} property caused by water, rain, snow, frost, fire, storm and accidents, or by breakage, stoppage or leakage of water, gas, heating and sewer pipe or plumbing, upon, about or adjacent to said premises, ~~or by acts of Lessor's employees or agents.~~

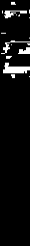


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Tenant covenants and agrees to indemnify and save Lessor and/or its agents harmless from and against any and all liability, damages, expenses, fees, penalties, actions, causes of action, suits, costs, claims or judgments arising from injury or damage during the term to persons or property within the building and premises occasioned by or caused, wholly or in part, by any act or acts, omission or omissions of Tenant, its agents, servants, contractors or employees.

Tenant shall not by act or conduct, after notice from Lessor, impair the validity of any policy of insurance taken out upon the premises by Lessor. Tenant shall comply with any reasonable recommendation of Lessor in order that an excess charge or increase in rate of insurance caused by Tenant's tenancy may be removed. If Tenant's tenancy cannot for some reason permit compliance with such recommendations, Tenant shall pay Lessor as additional rent the increased or additional cost of such insurance, if reasonable.

ARTICLE IX—Holding Over

If Tenant shall occupy the premises with or without Lessor's consent after the expiration of the term of this lease and rent is accepted from Tenant, such occupancy and payment shall be construed as an extension of this lease for the term of one month only from the date of such expiration and occupancy thereafter shall operate to extend this lease for but one month at a time unless other terms of such extension are endorsed hereon in writing and signed by the parties hereto. If either desires to terminate said occupancy at the end of any month after the termination of this lease, the party so desiring to terminate shall give the other party at least thirty (30) days written notice to that effect. However, the Lessor shall not be required to give any such notice if Tenant has failed to pay the rent, in advance when due. Failure on the part of Tenant to give such notice shall obligate Tenant to pay rent for an additional calendar month following the month in which the Tenant vacates the premises.

ARTICLE X—Rights Reserved to Lessor

Lessor reserves the right to enter the demised premises at any time and from time to time to examine the same, or to alter, improve or repair said premises and any portion of the buildings in which said premises are a part, but Lessor shall do so only with the consent of Tenant or when necessary and then with as little interference with Tenant's use and occupancy of the premises as is possible under the circumstances. Lessor, without limiting the use of Tenant's premises, shall also have the right at any time, to change the arrangement and/or location of public entrances or passageways, tunnels, public doors and doorways and public corridors, elevators, mechanical areas in rooms, stairs, toilets and other public parts of the building and to change the name, number, or designation by which the building in which the premises are located are commonly known. Right of entry shall always be with at least 30 minutes advance notice.

ARTICLE XI—Insolvency or Bankruptcy

If at any time during the term of this lease there shall be filed by tenant or there is an adjudication against Tenant in any court, pursuant to any statute either of the United States or of any state, a petition in bankruptcy or insolvency or for reorganization or appointment of a receiver or trustee of all or a portion of the property of Lessee, or if Tenant makes an assignment for the benefit of creditors, this lease, at Lessor's option, exercised after expiration of the period provided below, may be canceled and terminated. In that event, neither Tenant nor any person claiming through or under Tenant by virtue of any statute or of an order of any court, shall be entitled to possession or to remain in possession of the demised premises, but shall forthwith quit and surrender the premises. If any of the foregoing actions by or against Tenant shall continue for a period of sixty (60) days, it shall be deemed a breach of this lease by Tenant, entitling Lessor to proceed as provided herein. In no event, shall this lease be assigned or assignable by operation of law or by voluntary or involuntary bankruptcy proceedings or otherwise, and in no event shall this lease or any rights or privileges hereunder be an asset of Tenant under a bankruptcy, insolvency or reorganization proceedings.

ARTICLE XII—Remedies of Lessor

In the event of any breach (including abandonment and vacating the premises before the end of the term of the lease), of this lease by Tenant, the Lessor, after ten (10) days written notice ~~(except there shall be no requirement for failure to pay rent)~~ to the Tenant, in addition to any other rights or remedies which Lessor may have by law or otherwise, shall have the immediate right of re-entry, using whatever force may be necessary, and may remove all persons and property from the premises. Such property may be removed and stored at the

cost of and for the account Tenant. Should Lessor elect to re-enter as herein provided or should Lessor take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Lessor may either terminate this lease or may, from time to time, without terminating this lease, relet said premises or any part thereof for such reasonable term or terms (which may be for a term extending beyond the term of this lease) and at such reasonable rentals and upon such other terms and conditions as Lessor in the exercise of Lessor's sole discretion may deem advisable, and Lessor at Lessor's cost shall also have the right to make alterations and repairs to the premises. Upon such re-letting:

- a. Tenant shall be immediately liable to pay the Lessor in addition to any indebtedness other than rent due hereunder, ~~the cost and expense of re-letting and of such reasonably necessary alterations and repairs incurred by Lessor, and the amount, if any, by which the rent reserved in the lease for the period of such re-letting (up to but not beyond the term of this lease) exceeds the amount received as rent for the premises for such a period of such re-letting; or letting; or~~
- b. At the option of Lessor rents received by such Lessor from such re-letting shall be applied first, to the payment of any indebtedness, other than the rent due hereunder from Tenant to Lessor; second, to the payment of any costs and expenses of such re-letting and such reasonably necessary alterations and repairs; third, 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, and any excess balance remaining at the end of the lease shall be paid to Tenant.

~~Should Lessor at any time terminate this lease for any breach, in addition to any other remedy Lessor may have, Lessor may recover from Tenant all damages Lessor may incur by reason of such breach, including the rent reserved and charged in this lease for the remainder of stated term, all of which amount shall be immediately due and payable along with attorney fees from Tenant to Lessor and Lessor shall have no obligation to re-let. In addition to any other remedy of Lessor contained in this lease, the Lessor is hereby given a first lien upon any and all property of whatsoever nature, which shall come in or upon the leased premises, to secure the due payment of rent or other liability, the accruing hereunder, and upon failure of Tenant to pay any part of such rent or other liability, the Lessor, with notice, may possess and sell said property, at either public or private sale after one publication of a notice thereof in a daily newspaper published in said County of St. Louis, not less than ten (10) days before such sale, and may apply the proceeds of such sale to the payment of the expenses thereof and to discharge of the rent or other liability unpaid, and hold the balance of such proceeds if any, for the account of the Tenant.~~

ARTICLE XIII—Damage by Fire and Eminent Domain

~~If, during the term of this lease, the building is so damaged by fire or other casualty, or a part or all of the building is taken by eminent domain proceedings so that the building or the premises are rendered wholly unfit for occupancy, as determined by Lessor, and Lessor, within thirty (30) days of such damage gives Tenant written notice to that effect, then this lease shall cease and terminate from the date of such damage or taking. In such case, Tenant shall pay the rent apportioned to the time of damage or taking and shall immediately surrender the premises to the Lessor upon request therefore. If within thirty (30) days following such damage, Lessor gives Tenant written notice that it has determined that such damage can be repaired within ninety (90) days from the date of damage, Lessor and Tenant may terminate this lease if either so elects. Lessor may enter and repair such damage and this lease shall not be effected except that the rent shall be proportionately reduced or suspended while such repairs are being made until the same are again suitable for full occupancy. If, however, such damage is caused by Tenant's acts or failure to act, and Lessor elects, in accordance with this paragraph, to repair, then Tenant's obligation to pay rent shall not be suspended, nor shall such rent be apportioned, but Tenant shall be obligated to pay the full rent reserved in accordance with the terms of this lease during such period of repair and shall also be responsible to the Lessor under Article VIII herein.~~

ARTICLE XIV—Surrender of Premises

At the end of the term or any renewal thereof, or other sooner termination of this lease, the Tenant will peaceably deliver to the Lessor possession of the premises, together with all improvements or additions upon or belonging to the same in the same condition as received, or first installed, ordinary wear and tear and damage by fire, earthquake, act of God, or the elements alone excepted. Upon the termination of this lease, Tenant shall at Tenant's sole cost remove all trade fixtures, office furniture and equipment installed by Tenant unless other-

wise agreed to in writing by Lessor. Tenant shall also repair any damage caused by such removal. Property not so removed shall be deemed abandoned at the termination of this lease by the Tenant, and title to the same shall thereupon pass to Lessor. Tenant shall indemnify the Lessor against any loss or liability resulting from delay by Tenant in so surrendering the premises, including without limitation, any claims made against Lessor by any succeeding Tenant founded on such delay.

ARTICLE XV—Waiver

Waiver by Lessor or Tenant of any term covenant, requirement or condition herein shall not be deemed to be a permanent or continuing waiver thereof, nor as a waiver of any other term, covenant, condition or requirement of this lease, and subsequent acceptance of rent hereunder by Lessor shall not be deemed to be a waiver of any breach by Tenant of any term, covenant, requirement or condition or any subsequent breach of the same or any other term, requirement, covenant or condition herein contained.

ARTICLE XVI—Notices and Subordination

All notices and demands which may be or are required to be given by either party to the other hereunder shall be in writing and shall be sent by First Class United States Mail, postage prepaid, addressed to the Tenant at the premises; and addressed to the Lessor at the building, or such other firm or to such other place as Lessor or agent or Tenant may from time to time designate in writing.

Lessor may cause this lease to be made subject and subordinate to all ground or underlying leases, mortgages and restrictions which may now or hereafter effect the building and the premises, and to all renewals and extensions thereof. For confirmation of such subordination, Tenant shall execute promptly any subordination agreement requested by Lessor. Tenant hereby irrevocably constitutes and appoints Lessor as Tenant's agent to execute any such subordination agreements for and on behalf of Tenant, but Lessor is not thereby authorized to vary any term or provision of this lease.

ARTICLE XVII—Parking Facilities within the area shown on Exhibit C attached hereto;

Lessor shall provide free parking to Tenant and Employees of Tenant; however, all other visitors to the building will be required to pay for parking in accordance with hospital complex parking rates.

ARTICLE XVIII

Time is of the essence in the performance of this lease by Tenant and by Lessor.

ARTICLE XIX

The preparation of Tenant's premises for occupancy may be done by Tenant at Tenant's cost or by Lessor at Tenant's cost. If Tenant desires Lessor to do such work, then Exhibit B attached hereto and incorporated herein, shall govern as the "contract documents".

ARTICLE XX—Miscellaneous Provisions

This lease shall be governed by the laws of the State of Missouri.

It is agreed that neither Lessor nor Tenant nor their respective agents and employees, have not made any statement, promise or agreement, or taken upon itself any engagement whatsoever verbally or in writing in conflict with the terms of this lease or that in any way modifies, varies, alters, enlarges or invalidates any of its provisions and no obligations of Lessor or Tenant shall be implied in addition to the obligations herein stated.

~~It is required that all of the physician and dentist Tenants, their physician or dentist employees, associates, partners, assignees, or sub-lessees shall all be members of the medical-dental staff of DePaul Community Health Center; that if at any time during the term of this lease any of the physician or dentist Tenants, or their physician or dentist employees, associates, partners, assignees, or sub-lessees shall not be, or shall cease to be, members of the medical-dental staff of said Hospital, then this lease shall automatically terminate unless such non-staff physician or dentist has then severed his relationship with Tenant.~~

SEE ADDENDUM TO LEASE, PARAGRAPH 13

~~Tenant agrees to deposit with Lessor upon execution of this lease the sum of \$27,356.00 as security for the faithful performance by Tenant of the terms and covenants herein to be kept and performed by Tenant, said security deposit shall be applied to the first full month's rental and to the last month's rental due hereunder. Said security deposit may be applied by Lessor on account of any damages or loss Lessor may sustain by reason of the breach of Tenant of any covenant or term of this lease~~

In the event of the death, total disability for a period of three (3) months, or involuntary induction into the armed forces, of Tenant, said Tenant or his heirs, executors, administrators, or personal representatives may terminate this lease by giving written notice to Lessor accompanied by the payment of an amount equal to three (3) month's rent

Tenant hereby grants to Lessor such licenses or easements in or over the demised premises or any portions thereof as shall be reasonably required for the installation or maintenance of mains, conduits, pipes, or other facilities to serve the building of any part thereof; provided, however, that Lessor shall pay for any alteration required on the demised premises as a result of any such exercise, occupancy under, or enjoyment of, any such license easement, and provided further that no exercise, occupancy under, or enjoyment of any such license or easement shall result in any unreasonable interference with Tenant's use, occupancy, or enjoyment of the demised premises as contemplated by this lease.

All the terms of this lease shall extend to and be binding upon the respective heirs, executors, administrators, successors and assigns of the respective parties hereto.

It is hereby agreed by and between the parties hereto that the invalidation, for any reason whatsoever, of any particular clause, provision or covenant contained in this lease shall not invalidate all, or any part of the remainder thereof, but such remainder shall be and remain valid in all respects as fully as the law shall permit, and binding upon the parties hereto.

Tenant shall have the option to renew this lease for an additional term of five (5) years, on the same terms and conditions as the primary lease, ~~except that the terms of the said additional term shall be subject to the terms of the lease then in effect at the expiration of this lease.~~ Tenant shall give notice in writing to Lessor, at least ninety (90) days prior to expiration of this lease, of intent to exercise option herein, ~~and the same shall be subject to the terms of the lease then in effect at the expiration of this lease.~~

Tenant shall maintain and be responsible to see that professional and general liability insurance is maintained for the benefit of each tenant that is a physician or dentist and for each physician or dentist employed by, associated with or in partnership with each tenant or sub-lessee of Tenant for limits not less than \$200,000.00 any one claim, \$600,000.00 in the aggregate annually.

X-Ray equipment may be installed in office suites at Tenant's expense, but usage shall be limited to that of the Tenant for use in his own practice. Laboratory facilities in private offices shall be limited to those which will permit simple procedures requiring no specialized equipment beyond that of a centrifuge and microscope, i.e., dip stick tests and urinalysis. All other laboratory procedures are prohibited.

Tenant and its employees may inject and administer drugs to patients under their care but shall not dispense drugs other than the distribution of free drug company samples nor shall Tenant dispense eye glasses, eye wear, contact lenses, hearing aids or other products in competition with the commercial tenants in the building.

IN WITNESS WHEREOF, the parties have executed this lease this 27 day of

August, 1979

DePAUL MEDICAL OFFICE BUILDING
MANAGEMENT CORPORATION

By: *Anthony J. Banks, President*
COMPREHENSIVE CARE CORPORATION

By:

B. L. Karns
Tenant B. L. Karns, President

ATTEST:

William James Nicol
William James Nicol, Secretary

DEPAUL MEDICAL OFFICE BUILDING MANAGEMENT CORPORATION'S
RULES AND REGULATIONS

1. The driveways, parking areas, plazas, sidewalks, entrances, passages, courts, elevators, vestibules, stairwells, corridors or halls shall not be obstructed or encumbered by any Tenant or used for any purpose other than ingress and egress to and from the premises.

2. No awnings, canopies, or other projections shall be attached to the outside walls of the building. No drapes, curtains, blinds, shades, or screens shall be attached to or hung in, or used in connection with, any window or door of the premises without the prior written consent of Lessor.

3. Tenants are prohibited from displaying any sign, picture, advertisement or notice on the inside or outside of the building, or the premises, except the usual name signs on the doors leading to the premises, which shall conform to the requirements of the management of the building, and excepting also the name strips on the directory board of the building. The directory board of the building will be maintained by Lessor. In the event of the violation of the foregoing by any Tenant, Lessor may remove same without any liability, and may charge the expense incurred by such removal to the Tenant.

4. The sashes, sash doors, windows, and doors that reflect or admit light and air into the halls, passageways or other public places in the building shall not be covered or obstructed by any Tenant, nor shall any bottles, parcels or other articles be placed on the windowsills or perimeter fan coil consoles.

5. No showcases or other articles shall be put in front of or affixed to any part of the exterior of the building nor placed in the halls, corridors, elevators, stairwells, or vestibules without the prior written consent of Lessor.

6. The water and wash closets and other plumbing fixtures shall not be used for any purposes other than those for which they were constructed, and no sweepings, rubbish, rags or other substances shall be thrown therein. All damages resulting from any misuse of the fixtures shall be borne by Tenant who, or whose servants, employees, agents, visitors or licensees, shall have caused the same.

7. No Tenant shall mark, paint, drill into, or in any way deface any part of the premises or the building of which they form a part. No boring, cutting or stringing of wires shall be permitted, except with the prior written consent of Lessor, and as Lessor may direct. No Tenant shall lay any type of floor covering without first obtaining Lessor's written permission.

8. No bicycles, vehicles or animals of any kind shall be brought into or kept in or about the premises, ~~and no cooking or other activities shall be permitted by any Tenant or licensee.~~ No Tenant shall cause or permit any unusual or objectionable odors to be produced upon or emanate from the premises. Employees shall be allowed to cook food in a microwave oven on the premises.

9. No space in the building shall be used for manufacturing, for the storage of merchandise, or for the sale of merchandise, goods, or property of any kind unless Lessor shall have specifically, in writing, authorized such activities. Tenant may store and sell small amounts of supplies incidental to Tenant's programs.

10. No Tenant shall make, or permit to be made, any unseemly or disturbing noises or disturb or interfere with occupants of this building, or premises, or neighboring buildings.

11. No Tenant, nor any of Tenant's servants, partners, employees, agents, visitors or licensees, shall at any time bring or keep upon the premises dangerous amounts or unnecessary amounts of any flammable, combustible or explosive fluid, chemical or substance.

12. Tenants are prohibited from installing additional locks upon any of the doors or have duplicate keys made for any of the doors leading to the premises. (All necessary keys will be furnished to Tenant by Lessor). Each Tenant must, upon the termination of tenancy, return all keys to Lessor.

13. All deliveries and all removals, or the carrying in or out of any freight, furniture or bulky matter of any description must be by way of the loading dock and on elevator designated by Lessor. Such deliveries and removals shall be made during hours which the Lessor or its agent may determine from time to time. Lessor reserves the right to inspect all freight to be brought into the building and to exclude from the building all freight which violates any of these Rules and Regulations or the lease of which these Rules and Regulations are a part.

14. Lessor shall have the right to prohibit any advertising by any Tenant which, in Lessor's opinion, tends to impair the reputation of the building or their desirability for offices, and upon written notice from Lessor, Tenant shall refrain from or discontinue such advertising.

15. Lessor reserves the right to exclude any person other than a Tenant or one entering with Tenant's permission from the building between the hours of 6:00 p.m. and 8:00 a.m. on weekdays and from 5:00 p.m. Saturday to 8:00 a.m. Monday. Entry to the building during such hours shall be made in accordance with security procedures established by Lessor for the building.

16. The premises shall not be used for lodging or sleeping

17. The requirements of Tenants will be attended to only upon application at the office of the building. Building employees shall not perform any work or do anything outside their regular duties, except under special instructions from the office of the building.

18. Canvassing, soliciting and peddling in the building are prohibited and each Tenant shall cooperate to prevent same.

19. The Tenant shall not establish on the premises a contraceptive clinic.

ADDENDUM TO LEASE DATED *August 27*, 1979
BETWEEN DePAUL MEDICAL OFFICE BUILDING MANAGEMENT
CORPORATION AND COMPREHENSIVE CARE CORPORATION

DePAUL MEDICAL OFFICE BUILDING
MANAGEMENT CORPORATION

By: *[Signature]*
COMPREHENSIVE CARE CORPORATION

By:

[Signature]
Tenant B. L. Kams, President

Attest:

[Signature]
William James Nicol, Secretary — 10 —

ADDENDUM TO LEASE

1. The following shall be added to Article II:

If Tenant's CARE UNIT PROGRAM ceases operation at the DePaul Community Health Center for any reason or no reason, Tenant shall have the right to terminate this lease upon six (6) months prior notice.

2. The following shall be substituted for the last sentence of the first paragraph of Article III:

Should a dispute arise between Lessor and Tenant as to whether or not services are in direct competition with DePaul Community Health Center, then Lessor, at its option, may terminate the lease upon one hundred eighty (180) days written notice to Tenant and such termination shall not constitute a breach of this lease and in the event of such termination the security deposit required by Article XX shall be applied to the last month's rent as if the lease term had expired.

3. The following shall be added to Article IV:

g. Total rent increases pursuant to paragraphs a and b above shall not exceed five per cent (5%) of the base rent per annum, calculated on a cumulative basis.

h. In consideration of Tenant's construction of improvements at its own cost, Tenant shall pay no rent to Lessor for the first month under this lease in years 1, 2, 3, 6, 7 and 8; provided that the first month in year 1 shall be construed to mean the first full month of occupancy.

4. The following shall be added to the first paragraph of Article V:

Lessor shall provide Tenant with a schedule stating the types and frequency of janitorial services provided. Tenant shall have the right to provide janitorial service at its own cost if it is dissatisfied with the janitorial service provided by Lessor.

5. The following shall be added to the last paragraph of Article VIII.

If the increased cost is unreasonable, Tenant shall have the right to terminate this lease effective at any date Tenant may elect within one year after Tenant first receives written notice of the amount of insurance to be billed to it.

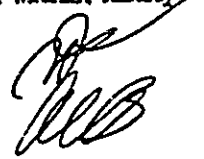
Handwritten signature and initials, possibly "PK" and "WB", in the bottom right corner of the document.

6. The following shall be substituted for the last paragraph of Article XII:

Should Lessor at any time terminate this lease for any breach, in addition to any other remedy Lessor may have, Lessor may recover from Tenant all damages Lessor may incur by reason of such breach, including the rent reserved and charged in this lease for the remainder of stated term, all of which amount shall be immediately due and payable along with reasonable attorney fees from Tenant to Lessor and Lessor shall have an obligation to use reasonable efforts to re-let. In addition to any other remedy of Lessor contained in this lease, the Lessor is hereby given a lien upon any and all property owned by Tenant of whatsoever nature, which shall come in or upon the leased premises (except no lien is given on property already subject to a mortgage or other security agreement if giving of a lien on such property to Lessor would violate the terms of the mortgage or security agreement) to secure the due payment of rent or other liability, the accruing hereunder, and upon failure of Tenant to pay any part of such rent or other liability, the Lessor, with prior written notice to Tenant, may possess and sell said property, at either public or private sale after one publication of a notice thereof in a daily newspaper published in said County of St. Louis, not less than ten (10) days before such sale, and may apply the proceeds of such sale to the payment of the expenses thereof and to discharge the rent or other liability unpaid, and hold the balance of such proceeds, if any, for the account of the Tenant.

7. The following shall be substituted for Article XIII:

If, during the term of this lease, the building is so damaged by fire or other casualty, or a part or all of the building is taken by eminent domain proceedings so that the building or the premises are rendered wholly unfit for occupancy, and cannot be repaired within 90 days, as reasonably determined by Lessor, and Lessor, within thirty (30) days of such taking or damage gives Tenant written notice to that effect, then this lease shall cease and terminate from the date of such damage or taking. In such case, Tenant shall pay the rent apportioned to the time of damage or taking and shall immediately surrender the premises to the Lessor upon request therefor. If within thirty (30) days following such damage, Lessor gives Tenant written notice that it has determined that such damage can be repaired within ninety



(90) days from the date of damage, Tenant may terminate this lease if it so elects. If the building can be repaired within 90 days and if Tenant elects to continue the lease, Lessor shall enter and repair such damage as promptly as is reasonably possible and this lease shall not be affected except that the rent shall be proportionately reduced or suspended while such repairs are being made until the same are again suitable for full occupancy. If, however, such damage is caused by Tenant's willful or negligent acts or failure to act, and Lessor repairs, then Tenant shall be obligated to pay the full rent reserved in accordance with the terms of this lease during such period of repair and shall also be responsible to the Lessor under Article VIII herein, and Lessor shall be obligated to complete the repairs as soon as reasonably possible.

8. The following shall be added to Article XVI:

Any such subordination shall be upon the express condition that this lease shall be recognized by the mortgagee or ground owner and that the rights of Tenant shall remain in full force and effect throughout the lease term and any extension or renewal thereof notwithstanding any foreclosure proceedings with respect thereto or any termination of the ground lease, providing, however, that Tenant shall perform all the terms, covenants and conditions of this lease and attorn to any mortgagee, purchaser under a deed of trust or foreclosure sale, or the ground owner.

9. The following shall be added to Article XX:

Lessor represents that it has marketable fee simple title to DePaul Medical Building and the parking area indicated in Exhibit C.

Lessor covenants not to disturb Tenant's quiet enjoyment of the premises.

Whenever the consent of a party to this Lease is required, such consent shall not be unreasonably withheld.

10. The following shall be added to Rule 12, as to Tenant:

Notwithstanding this prohibition Tenant is hereby given permission to put additional locks on one or more secured closets that can be used for protecting expensive equipment or other items, provided the building manager receives a key to the secured closet.

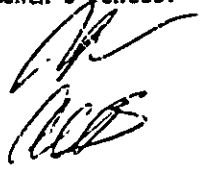
11. The following shall be added to Rule 14, as to Tenant:

It is understood that this prohibition pertains only to references in advertising to the building and does not authorize Lessor to otherwise restrict the content of Tenant's advertising.



12. Tenant shall prepare the premises for its occupancy at its cost pursuant to the space plan dated August 14, 1979, which are hereby approved by Lessor and incorporated by reference herein as Exhibit A hereto. Lessor shall provide an allowance of \$173,520.75 (\$9.25 per square foot) in connection with the construction of Tenant improvements, payable one-half upon submission of working drawings by Tenant to Lessor and one-half upon occupancy of the premises by Tenant. Lessor agrees to sell to Tenant any or all of the construction materials scheduled in Exhibit B-2 hereto at Lessor's cost although Tenant is not hereby bound to buy and utilize such materials. The value of said materials as are called for by the working drawings will be applied against the first installment payment of the construction allowance. Additional items requested and utilized thereafter will be offset against the final installment payment. Tenant does agree, however, to utilize such of said materials as prove to be satisfactory to Tenant and consistent with the design and decor of its suite. Tenant shall have access to the premises for construction purposes prior to commencement of the lease term.

13. Tenant agrees to deposit with Lessor upon execution of this lease the sum of \$13,678.44, said deposit to be applied by Lessor to the first full month's rental.



DEFERRED COMPENSATION AGREEMENT

This Deferred Compensation Agreement ("Agreement") is entered into on June 27, 1979, by and between Comprehensive Care Corporation, a Delaware corporation ("CompCare") and B. Lee Karns ("Karns"), at Newport Beach, California.

R E C I T A L S

A. Karns is the President of CompCare and has been employed in that capacity by CompCare since May 1, 1972, but he is not employed pursuant to a formal written employment agreement.

B. Karns and CompCare entered into a Deferred Compensation Agreement dated November 3, 1975 and a Death Benefit Agreement dated October 8, 1974, as amended.

C. CompCare desires to retain Karns as its president and to provide him with an additional incentive to continue his employment in that capacity and therefore desires to terminate the Deferred Compensation Agreement dated November 3, 1975 and the Death Benefit Agreement dated October 8, 1974, and replace them with another deferred compensation arrangement.

NOW, THEREFORE, IT IS AGREED:

1. The Deferred Compensation Agreement dated November 3, 1975 between CompCare and Karns is hereby terminated and it shall be of no further force and effect. The Death Benefit Agreement shall remain in effect until Karns attains age 50, at which time it shall terminate.

2. CompCare agrees that subsequent to Karns' retirement or termination of employment for other reasons after attaining age 50, it will pay to Karns annually for a period of ten (10) years a percentage of (a) his salary for the last complete calendar year of CompCare worked by Karns prior to his retirement or other termination of employment (including death), and (b) the average amount of bonus compensation paid to him during such calendar year and the previous two calendar years, or from the date hereof, whichever period is shorter, as follows:

Age at Death of
Retirement or Other
Termination of Employment

Percentage of Salary and
Average Bonus Payable as
Deferred Compensation

50
51

20%
22%

52	24%
53	26%
54	28%
55 or over	30%

Said deferred compensation payments shall be paid in equal monthly installments and shall commence on the first day of the month immediately following the month in which Karns' retirement or other termination of employment occurs.

In addition, the annual amount of deferred compensation payable to Karns shall be increased as of the first day of the first month of each year during the ten-year deferred compensation period in the event that the Consumer Price Index For All Urban Area Consumers, U.S. City Average, as published by the U.S. Government, Department of Labor, Bureau of Labor Statistics, or any successor department or agency, has increased for the last month of any year during the ten-year deferred compensation period as compared with the last month worked by Karns prior to his retirement or other termination of employment. In such event, the deferred compensation payable to Karns shall be increased in direct proportion to the percentage increase in said Consumer Price Index.

For example, if Karns is 53 years old at the time he terminates his employment and if Karns' salary for the last full calendar year prior to his termination of employment was \$150,000 and the average bonus paid to him in that year and the two previous years was \$50,000, then the amount payable by CompCare to Karns for ten years is \$52,000 per year (26% of \$200,000) at the rate of \$4,333.33 per month. Such amount would be increased each year based upon increases in the cost of living.

3. Karns agrees, as a condition to the performance by CompCare of its obligations hereunder, that subsequent to his retirement or other termination of employment from CompCare, he will render consulting services to CompCare upon its request, but not to exceed an aggregate of 15 hours per month, provided, however, that Karns shall be excused from performing such consulting services if his failure to perform is due to reasons of health (including physical or mental infirmity). Karns shall be reimbursed for out-of-pocket expenses incurred performing such services.

4. Karns agrees, as a condition to the performance by CompCare of its obligations hereunder, that during the ten-year deferred compensation period he will not, directly

or indirectly, render any services of any advisory nature or otherwise to, or become employed or participate or engage in any business competitive with, any business of CompCare, without its prior written consent; nor shall he permit the use of his name by an entity engaged in any business competitive with any business of CompCare, without its prior written consent; provided, however, that nothing herein shall prohibit Karns from owning securities of a competitor which are relatively insubstantial to the total outstanding securities of such competitor so long as he in fact does not have the power to control or direct management or policies of such competitor and does not serve as a director or officer of, and is not associated in any business manner with, any competitor, except as consented to by CompCare.

5. If Karns' employment is terminated as a result of his death, or if Karns dies during the ten-year deferred compensation period, then the deferred compensation payments provided for herein shall be made to his spouse if she is living or if she is deceased or dies during the ten-year deferred compensation period, then equally to his then living children (including Shane Batt), or to the survivors if any of said children die during the ten-year deferred compensation period. In the event that Karns is not survived by a spouse or children, or if survived by a spouse and/or children, and all of them die prior to the expiration of the ten-year deferred compensation period, then in such event or at such time, CompCare shall have no obligation to make any payments or further payments under this Agreement and it shall terminate and be of no further force and effect.

6. This Agreement does not constitute an employment agreement and it is understood that Karns is not obligated to remain in the employ of CompCare for any specific period of time and CompCare is not obligated to retain Karns in its employ for any specific period of time.

7. Neither Karns nor any other person entitled to receive payments under this Agreement shall have any right to sell, assign, or otherwise transfer any right under this Agreement; and any attempted sale, assignment or other transfer of any rights under this Agreement shall be null and void and without effect.

8. If CompCare shall at any time be merged or consolidated into or with any corporation, or substantially all the assets of CompCare are transferred to another corporation, then the provisions of this Agreement shall be binding upon and inure to the benefit of the corporation resulting from such merger of consolidation or to which such assets shall

9. Any provision in this Agreement to the contrary notwithstanding, no deferred compensation shall be payable to Karns hereunder, or to his designated beneficiary, spouse or children, if Karns' employment with CompCare is "terminated for cause." "Terminated for cause" shall mean terminated because of Karns' (1) willful breach of duty in the course of employment; (2) habitual neglect of duty; (3) intemperance; (4) conduct in such a manner as to commit an offense involving moral turpitude under Federal, State or local laws; (5) conduct that offends against decency or morality; or (6) conduct that causes public scandal.

COMPREHENSIVE CAPE CORPORATION

By: William James Nicol
Vice President, Finance and
Administration

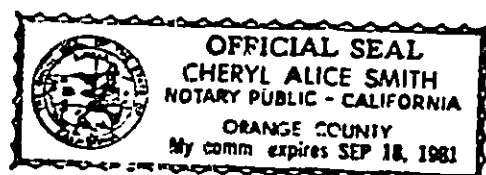
B. Lee Karns
B. LEE KARNs

STATE OF CALIFORNIA)
) SS.
COUNTY OF ORANGE)

On this the 28th day of June, 1979, before me, the undersigned Notary Public, personally appeared WILLIAM JAMES NICOL and B. LEE KARNs, known to me to be the persons whose names are subscribed to the within instrument and acknowledged that they executed the same for the purposes therein contained.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Cheryl Alice Smith
Notary Public



LOAN AGREEMENT

THIS AGREEMENT is made and entered into on September 24, 1979 by and between COMPREHENSIVE CARE CORPORATION, a Delaware corporation ("Borrower"), and UNION BANK, a California banking corporation ("Bank").

Section 1. THE LOAN

1.1 The Revolving Loan. Bank will lend to Borrower an amount not to exceed Three Million Dollars (\$3,000,000.00) outstanding in the aggregate at any one time (the "Revolving Loan"). Borrower may borrow, repay and reborrow all of the Revolving Loan in multiple integrals of TEN THOUSAND DOLLARS (\$10,000.00) upon, in the case of borrower, giving the Bank at least one (1) business day's notice in writing of the amount it intends to borrow. All borrowings of the Revolving Loan must be made before Sept. 14, 1980 at which time all the unpaid principal and accrued interest of the Revolving Loan shall be due and payable. The Revolving Loan shall be evidenced by a promissory note (the "Revolving Note") on the standard form used by Bank for commercial loans. Bank shall enter each amount repaid on the back of the Note and such entries shall be prima facie evidence of the amount of the Revolving Loan outstanding.

1.2 The Term Loan. Upon the maturity of the Revolving Loan, Bank will lend to Borrower the unpaid principal amount of the Revolving Note (the "Term Loan") at Borrower's request for the sole purpose of paying the Revolving Note. The Term Loan shall be evidenced by a promissory note (the "Term Note") on the standard form used by Bank for commercial loans. As hereinafter used the words, Loan, shall mean both the Revolving Loan and Term Loan and the word, Note, shall mean both the Revolving Note and Term Note.

1.3 Interest. The unpaid principal balance of the Loan shall bear interest at the rate of one percent (1%) per year in excess of the Prime Rate of interest which Bank charges corporate borrowers of the highest credit standing for short-term unsecured commercial loans, which shall vary concurrently with any change in such Prime Rate. Interest shall be computed on the basis of the actual number of days during which the principal is outstanding divided by 360 which shall, for the purposes of interest computation, be considered one year. Interest shall be payable monthly within ten (10) days after the receipt of notice from Bank of the amount owing.

1.4 Payment of Term Loan. The principal of the Term Loan shall be payable in equal monthly instalments on a four year amortization on the 1st day of each month commencing upon the first such day after the extension of the Term Loan and continuing for the forty-seven (47) months thereafter, at which time all the unpaid principal and accrued interest shall be due and payable.

1.5 Prepayment of Term Loan. Borrower may prepay the Term Loan in whole or in part without premium or penalty. In the

event of prepayment, the prepayment shall be applied on the principal payments of latest maturity.

1.6 Revolving Loan Fee. Upon maturity of the Revolving Loan and as a condition to the making of the Term Loan, Borrower will pay Bank a fee equal to 1/8% of the average unused portion of the Revolving Loan.

Section 2. CONDITIONS PRECEDENT TO THE LOAN

Bank shall not be obligated to disburse all or any portion of the proceeds of the Loan unless at or prior to the time for the making of such disbursement, the following conditions have been fulfilled:

2.1 Borrower shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the date of the making of any disbursement and shall have executed and delivered to Bank the Note.

2.2 Careunit, Inc.; Fort Worth Neuropsychiatric Hospital, Inc.; and Terracina Convalescent Hospital and Home, Inc. (hereinafter individually and collectively referred to as "Guarantors") shall have executed with respect to the Loan and delivered to Bank their continuing guaranties, on the standard form for continuing guaranties used by Bank, for the sum of at least Three Million Dollars (\$3,000,000) each.

2.3 Borrower shall have provided Bank with a certified copy of Borrowing Resolution on Bank's form duly adopted by the Board of Directors of Borrower.

2.4 With respect to this Agreement, Bank has received opinion of counsel satisfactory to it to the effect that:

(i) Borrower and NPHS, Inc., are duly organized and existing under the laws of their states of incorporation, without limitation to their existence, and have the corporate power and authority to carry on the business in which they are engaged;

(ii) Borrower has the corporate power and authority to enter into this Agreement and to execute and deliver the Note and all of the documents required by this Agreement and NPHS, Inc. has the corporate power and authority to enter into its guarantee;

(iii) The execution, delivery and performance of this Agreement have been duly authorized by all requisite corporate action of Borrower or NPHS, Inc. as applicable; and

(iv) The execution, delivery and performance of the Agreement by Borrower and the guarantee by NPHS, Inc. will not (a) cause any such corporation to violate the articles or certificate of incorporation of such corporation, or (b) to the best of counsel's knowledge, result in a

breach of or constitute a default under any indenture or loan or credit agreement or other agreement, lease or instrument to which such corporation is a party or by which it is bound.

In giving such opinion, counsel shall be entitled to rely upon certificates of officers of Borrower, of NPHS, Inc., of public officials, or of such other persons which counsel shall consider an appropriate and reliable source of the information on which counsel's opinion is requested.

2.5 At the time a requested disbursement of the Revolving Loan or the Term Loan is to be made, there shall not exist any event, condition or act which constitutes an event of default as defined in Section 6 hereof and any condition, event or act which with notice, lapse of time or both would constitute such event of default. There would not exist any event, condition, or act immediately after the disbursement were it to be made.

Section 3. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants that:

3.1 The business of Borrower is health care and related services.

3.2 The execution, performance and delivery of this Agreement, the Note and all other agreements and instruments required by Bank in connection with the Loan are not in contravention of any of the terms of any indenture, agreement or undertaking to which Borrower or Guarantors are a party or by which they or any of their property is bound or affected.

3.3 A consolidated statement of financial condition of Borrower at February 28, 1979, together with supporting schedules and a consolidated statement of income and expense of Borrower for the 9 months ended February 28, 1979 in the form of the 10 Q statement submitted to the Securities and Exchange Commission, have heretofore been furnished to Bank, and are true and complete and fairly represent the financial conditions during the periods covered thereby. Since February 28, 1979, there has been no material adverse change in the financial position or operations of Borrower or Guarantors.

3.4 Except for assets which may have been disposed of in the ordinary course of business, Borrower and Guarantors have good and marketable title, free and clear of all liens, encumbrances, security interest and adverse claims except those specifically set forth to all of the property reflected in Borrower's consolidated statement of financial condition at February 28, 1979, and to all property acquired by Borrower or Guarantors since that date.

3.5 There is no litigation or proceeding pending or to the best of Borrower's knowledge threatened against Borrower or Guarantors or any of their property, the results of which, if decided adversely, might substantially affect the financial condition, property or business of Borrower or Guarantors in an adverse manner or result in liability in excess of Borrower's

or Guarantor's insurance coverage.

3.6 Neither Borrower nor Guarantors are now in default in the payment of any of their material obligations except for SBA Loan #DC880712-00-01LA entered into by NPHS, Inc.

3.7 There exists no event, condition or act which constitutes an event of default as defined in Section 6 hereof and no condition, event or act which with notice or lapse of time would constitute such event of default.

3.8 Borrower and Guarantors are duly organized and existing under the laws of their states of incorporation, without limitation to their existence, and have the power and authority to carry on the business in which they are engaged.

3.9 Borrower has the power and authority to enter into this Agreement and to execute and deliver the Note and all of the documents required by this Agreement. Guarantors have the power and authority to execute their guaranties.

3.10 This Agreement and all things required by this Agreement have been duly authorized by all requisite corporate action of Borrower or Guarantors as appropriate.

3.11 Borrower and Guarantors are duly qualified and in good standing as foreign corporations wherever such qualification is required.

3.12 These representations shall be considered to have been made again at and as of the date of each disbursement of the Loan and shall be true and correct as of that date.

3.13 Borrower's and Guarantor's pension plans for retired employees have been funded in accordance with principles that are actuarially sound and no reportable event has occurred and is continuing with respect to any such plan. No fact exists in connection with any of Borrower's and Guarantors' pension plans for retired employees which constitutes grounds under the Employee Retirement Income Security Act of 1974, as presently in effect, for the termination of any such plan by the Pension Benefit Guaranty Corporation or for the appointment by any United States district court of a trustee to administer any such plan.

3.14 No action has been taken or is currently planned by the Borrower or Guarantors, or any agent acting on its behalf, which would cause this Agreement or the Note to violate Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Securities and Exchange Act of 1934 pertaining to loans secured directly or indirectly by stock, in each case as in effect now or as the same may hereafter be in effect. Borrower is not engaged in the business of extending credit for the purposes of purchasing or carrying margin stocks as one of its important activities.

3.15 Except as noted herein, Guarantors are the only subsidiaries of Borrower and Borrower owns one hundred percent (100%) of the stock in Guarantors. When consolidated statements are required or referred to in this Agreement, Guarantors shall be all the consolidated subsidiaries. Bank understands that Cremanor Hospital of Virginia, Inc., is in formation and will become a consolidated subsidiary but will not guaranty the Loan.

Section 4.

AFFIRMATIVE COVENANTS OF BORROWER

Until the Note and all other sums payable pursuant to this Agreement or any other agreement or instrument required by Bank in connection with the Loan have been paid in full, unless Bank waives compliance in writing, Borrower agrees that:

4.1 Use of Proceeds. Borrower will use the net proceeds of the Loan only for general corporate purposes in the conduct of the business in which it or its Guarantors are presently engaged.

4.2 Payment of Obligations. Borrower will and will cause Guarantors to pay and discharge promptly all taxes, assessments and other governmental charges and claims levied or imposed upon them or upon its property, or any part thereof, provided, however, that Borrower and Guarantors shall have the right in good faith to contest any such taxes, assessments, charges or claims and, pending the outcome of such contest, to delay or refuse payment thereof provided that adequate reserves are established by them to pay and discharge any such taxes, assessments, charges and claims.

4.3 Maintenance of Corporate Existence. Borrower will and will cause Guarantors to maintain and preserve their existence and assets and all rights, franchises and other authority necessary for the conduct of their business and will maintain and preserve their property, equipment and facilities in good order, condition and repair. Bank may, at reasonable times, visit and inspect any of the properties of Borrower or Guarantors.

4.4 Records. Borrower will and will cause Guarantors to keep and maintain full and accurate accounts and records of their operations according to generally accepted accounting principles and practices and will permit Bank to have access thereto, to make examination thereof, and to make audits during regular business hours.

4.5 Information Furnished. Borrower will furnish to Bank:

(i) Within forty-five (45) days after the close of each fiscal quarter, except for the last quarter of each fiscal year, its form 10 Q submitted to the Securities and Exchange Commission for that quarter, prepared in accordance with generally accepted accounting principles and practices and examined and certified as correct to the best of the knowledge and belief of its chief financial officer.

(ii) Within ninety (90) days after the close of each fiscal year, a copy of its consolidated statement of financial condition including at least its consolidated balance sheet as of the close of such fiscal year, its consolidated income and expense statement and consolidated retained earnings statement for such fiscal year, examined and certified by independent certified public accountants, selected by Borrower and reasonably satisfactory to Bank, in accordance with generally accepted accounting principles applied on a basis consistent with that of the previous year. Bank has no current objection to Borrower's existing accountants.

(iii) Such other financial statements and information as Bank may reasonably request from time to time including consolidating worksheets for the statements required by subparts (i) and (ii) hereof.

4.6 Working Capital. On a consolidated basis, Borrower will at all times maintain a net working capital equal to at least TWO MILLION DOLLARS (\$2,000,000) and a ratio of current assets over current liabilities of at least 1.5 to 1.0. Net working capital for the purpose of this subsection shall mean the excess of current assets over current liabilities of Borrower. Current assets and current liabilities are those assets and liabilities which normally turn over during a twelve (12) month cycle including the current portion of long term liabilities.

4.7 Tangible Net Worth. On a consolidated bases, Borrower will at all times maintain a minimum tangible net worth of FOUR MILLION NINE HUNDRED THOUSAND DOLLARS (\$4,900,000) which shall increase as of fiscal year-end by seventy percent (70%) of net profit after taxes, if any, for the previous fiscal year beginning with this fiscal year to end May 31, 1979. Tangible net worth for the purpose of this subsection shall mean net worth after deducting patents, trade marks, goodwill and other similar intangible assets.

4.8 Debt to Net Worth. On a consolidated basis, Borrower will at all times maintain a ratio of total liabilities to tangible net worth of not greater than 2.7 to 1.0. Compliance with this section shall be determined in a manner consistent with FASB 13.

4.9 Insurance. Borrower will and will cause Guarantors to keep all of their insurable property, real, personal or mixed, insured by good and responsible companies against fire and such other risks as are customarily insured against by companies conducting similar businesses with respect to like properties. Borrower will and will cause Guarantors to maintain adequate workmen's compensation insurance and adequate insurance against liability for damages to persons and property.

4.10 Notice of Default. Borrower will give prompt written notice to Bank of all events of default under any of the terms or provisions of this Agreement or of any other agreement, contract, document or instrument entered, or to be entered into by it or Guarantors, changes in management, litigation, and of any other matter which has resulted in, or might

result in, a materially adverse change in financial condition or operation of Borrower and Guarantors on a consolidated basis.

4.11 Compensating Balances. Borrower will maintain or cause to be maintained on deposit with Bank average daily collected demand deposit balances equal to at least ten percent (10%) of the Revolving Loan commitment plus ten percent (10%) of the average daily outstanding balance of the Revolving Loan and twenty percent (20%) of the average daily outstanding balance of the Term Loan. Balances shall be calculated after reduction for reserve requirements of the Federal Reserve Board, balances compensating Bank for all services provided by Bank without charge, uncollected funds and account activity charges. These balances shall be computed quarterly as of the last day of each March, June, September and December for the preceding quarter and any deficiency shall be charged a fee equal to the rate of interest on the Loan as of the last day of the quarter times the deficiency divided by four. This fee shall be due and payable ten (10) days after Bank sends Borrower notice of the amount due and owing. Failure to maintain required balances shall not be a default unless and until Borrower shall fail to pay the fee when due.

4.12 Litigation and Attorneys' Fees. Borrower will pay promptly to Bank without demand, reasonable attorneys' fees and all costs and other expenses paid or incurred by Bank in collecting or compromising the Loan or in enforcing or exercising its rights or remedies created by, connected with or provided in this Agreement or any other agreement or instrument required by Bank in connection with the Loan, whether or not suit is filed. If suit is filed only the prevailing party shall be entitled to attorneys' fees and court costs.

4.13 Reports Under Pension Plans. Borrower will and will cause Guarantors to, all times make, prompt payments of contributions required to meet the minimum funding standard set forth in Sections 302 through 305 of the Employee Retirement Income Security Act of 1974, as from time to time amended, with respect to each of their pension plans for retired employees; promptly after the filing thereof, furnish to Bank copies of each annual report required to be filed by them pursuant to Section 103 of such Act in connection with such plan for each plan year, including any certified financial statements or actuarial statements required pursuant to said Section 103; notify Bank immediately of any fact, including, but not limited to, any "Reportable Event" as that term is defined in Section 4043 of such Act, arising in connection with any such plan which might constitute grounds for the termination thereof by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States district court of a trustee to administer the plan; and furnish to Bank, promptly upon its request therefor, such additional information concerning any such plan as may be reasonably requested.

Section 5. NEGATIVE COVENANTS OF BORROWER

Until the Note and all other sums payable pursuant to this Agreement

or any other agreement or instrument required by Bank in connection with the Loan have been paid in full, unless Bank waives compliance in writing. Borrower agrees that:

5.1 Encumbrances and Liens. Borrower will not and will not cause Guarantors not to create, assume or suffer to exist, any mortgage, pledge, security interest, encumbrance or lien (other than for taxes not delinquent and for taxes and other items being contested in good faith and other liens or encumbrances incurred and discharged in the ordinary course of business except purchase money security interests) on property of any kind, real, personal or mixed, now owned or hereafter acquired, or upon the income or profits thereof, except to Bank and except for minor encumbrances and easements on real property which do not effect its market value.

5.2 Borrowings. Borrower will not and will cause Guarantors not to sell or discount any receivables or evidence of indebtedness, except to Bank, nor borrow any money, nor incur, directly or indirectly, any liabilities for borrowed money.

5.3 Liquidation or Merger. Borrower will not and will cause Guarantors not to liquidate nor dissolve nor enter into any consolidation, merger, partnership, or other combination, nor convey, nor sell, nor lease all or the greater part of its assets or business, nor purchase or lease all or the greater part of the assets or business of another.

5.4 Loans, Advances and Guaranties. Borrower will not, and will cause Guarantors not to, except in the ordinary course of business as currently conducted, make any loans or advances, nor become a guarantor or surety, nor pledge its credit or properties in any manner, nor extend credit except to each other.

Borrower will not and will cause Guarantors not to purchase the debt or equity of another person or entity except for savings accounts and certificates of deposit of Bank, or other financial institutions that have Federal deposit insurance, direct U.S. Government obligations and commercial paper issued by corporations with the top ratings of Moody's or Standard & Poor's, provided all such permitted investments shall mature within one year of purchase.

5.5 Fixed Assets. Without Bank's prior written approval, Borrower will not and will cause Guarantors not to spend in excess of FIVE HUNDRED THOUSAND DOLLARS (\$500,000) annually in the aggregate on a consolidated basis for capital equipment, whether real, personal or mixed. Each said expenditure shall be needed by Borrower or Guarantors in their ordinary course of business.

Section 6. EVENT OF DEFAULT

6.1 Event of Default. If one or more of the following described events of default shall occur:

(A) Borrower shall default in the due and punctual payment of the principal of or the interest on any note issued hereunder and such default shall not be cured within five (5) business days after written notice from bank.

(B) Any representation or warranty made by Borrower herein or in any certificate or financial or other statement heretofore or hereafter furnished by Borrower or its officers or any Guarantor shall prove to be in any material respect false and misleading; or

(C) Default shall be made by Borrower or Guarantors in the due performance or observance of any covenant or condition of this Agreement and such default shall not, within ten (10) days after Borrower has knowledge thereof, have been cured; or

(D) The filing by Borrower or Guarantors of any petition under the bankruptcy, reorganization, arrangement, insolvency or other debtors relief laws, or the filing against Borrower of any such petition if the filing against Borrower is not dismissed within thirty (30) days thereafter; or

(E) The making by Borrower or Guarantors of an assignment benefit of creditors; or

(F) The levy of any attachment, execution or other like process in an amount in excess of ONE HUNDRED THOUSAND DOLLARS (\$100,000) against any of Borrower's or Guarantors' property, if such attachment, execution or process is not released within thirty (30) days thereafter; or

(G) The voluntary suspension of business by Borrower or Guarantors; or

(H) The entry of any decree or order of a court having jurisdiction in the premises appointing a receiver of all or any substantial part of Borrower's or Guarantors' property, if such order or decree is not reversed or vacated within thirty (30) days thereafter; or

(I) If, in the opinion of Bank, there is a materially adverse change in the financial condition of Borrower or Guarantor or if for any reason Bank believes that the prospect of payment or performance pursuant to the Note, any other indebtedness of Borrower to Bank, this Agreement or any other agreement or instrument required by Bank in connection with the Loan has been impaired; or

(J) Borrower or Guarantors shall commit or do, or fail to commit or do, any act or thing which would constitute an event of default under any of the terms of any other agreement, document or instrument executed, or to be executed by it and concerning the obligation to pay an aggregate amount in excess of FIFTY THOUSAND DOLLARS (\$50,000),

including without limitation any indenture entered into by Borrower or Guarantors.

THEN, or at any time thereafter, and in each and every case, unless such default shall have been remedied, or waived in writing by Bank, at the option of Bank, the Loans outstanding under this Agreement shall thereupon, without presentment, demand, protest, or notice of any kind, all of which are hereby expressly waived be forthwith due and payable, if not otherwise then due and payable, anything herein or in any note or other agreement, contract, document or instrument contained to the contrary notwithstanding, and Bank may immediately, and without expiration of any period of grace, enforce payment of all liabilities of Borrower under this Agreement.

Section 7. MISCELLANEOUS PROVISIONS

7.1 Additional Remedies. The rights, powers and remedies given to Bank hereunder shall be cumulative and not alternative and shall be in addition to all rights, powers and remedies given to Bank by law against Borrower or any other person, including but not limited to Bank's rights of setoff or Bank's lien.

7.2 Non-Waiver. Any forbearance or failure or delay by Bank in exercising any right, power or remedy hereunder shall not be deemed a waiver thereof and any single or partial exercise of any right, power or remedy shall not preclude the further exercise thereof. No waiver shall be effective unless it is in writing.

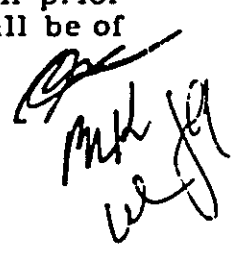
7.3 Inurement. The benefits of this Agreement shall inure to the successors and assigns of Bank and the permitted successors and assignees of Borrower.

7.4 Applicable Law. This Agreement and all other agreements and instruments required by Bank in connection therewith shall be governed by and construed according to the laws of the State of California, to the jurisdiction of whose courts the parties hereby agree to submit.

7.5 Severability. Should any one or more provisions of this Agreement be determined to be illegal or unenforceable, all other provisions nevertheless shall be effective.

7.6 Time of the Essence. Time is hereby declared to be of the essence of this Agreement and of every part hereof.

7.7 Integration Clause. Except for documents and instruments specifically referenced herein, this Agreement constitutes the entire agreement between Bank and Borrower regarding the Loan and all prior communications verbal or written between Borrower and Bank shall be of no further effect or evidentiary value.

Handwritten signature and initials, possibly "MK" and "WJ", in the bottom right corner of the page.

7.8 Amendments. This Agreement may be amended only in writing signed by all parties hereto.

Section 8. SERVICE OF NOTICE

8.1 Any notices or other communications provided for or allowed hereunder shall be considered to have been validly given if delivered personally or 48 hours after being deposited in the United States mail, postage prepaid and addressed:

If to Borrower: Comprehensive Care Corporation
660 Newport Center Drive, 4th Floor
Newport Beach, California 92660

Attention: William James Nicol
Administrative Vice-President

If to Bank: UNION BANK
610 Newport Center Drive
Newport Beach, California 92660

Attention: Commercial Loan Department

8.2 The addresses to which notices or demands are to be given may be changed from time to time by notice served as provided above.

This Agreement is executed on behalf of the parties by duly authorized officers as of the date first above written.

UNION BANK

By

Title

By

Title

COMPREHENSIVE CARE CORPORATION

By

Title

By

Title

END

DISCLOSURE[®]

THIS STATEMENT WAS FILMED WITH THIS DOCUMENT. IF THE PAGES OF THE DOCUMENT ARE LESS CLEAR THAN THIS STATEMENT IT IS DUE TO THE POOR PHOTOGRAPHIC QUALITY OF THE DOCUMENT.

FILMED

SEPT 1980

DISCLOSURE **Incorporated**