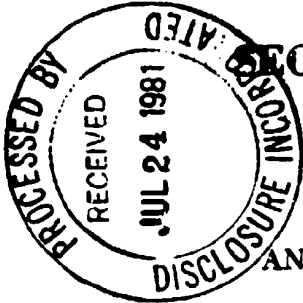


C 567825

ORIGINAL
H 04-511



SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended May 31, 1981

Commission file no. 0-5751

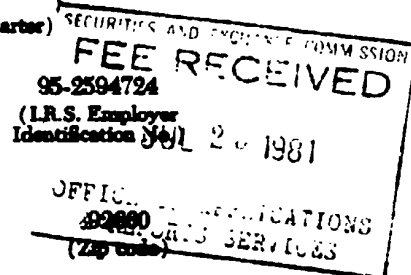
COMPREHENSIVE CARE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

186
660 Newport Center Drive, 4th Floor
Newport Beach, California
(Address of principal executive offices)



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

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

None

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

The aggregate market value of voting stock held by nonaffiliates of Registrant at July 10, 1981 was \$128,214,000.

At July 10, 1981, Registrant had 7,834,808 shares of Common Stock outstanding.

Parts I and III incorporate information by reference from the Proxy Statement for Registrant's Annual Meeting of Stockholders to be held on October 1, 1981.

PART I

Item 1. Business.

The Registrant, Comprehensive Care Corporation, is a Delaware corporation which was organized in January 1969. Registrant is primarily engaged in the development, implementation and management of programs for the delivery of alcoholism and psychiatric treatment services (the "Programs"). It is the largest private provider of hospital-based alcoholism treatment services in the United States. During fiscal 1981, alcoholism and psychiatric treatment services accounted for approximately 81% of Registrant's total revenues.

Alcoholism Treatment Services

Registrant provides alcoholism treatment services in six hospitals operated by it and 61 independent general hospitals which have entered into 62 CareUnit contracts ("Contracts") with it. The alcoholism Program was developed and introduced by Registrant in May 1973 under the name CareUnit (Comprehensive Alcoholic Rehabilitation Environment Unit). It was originally directed toward the adult alcoholic but has been adapted and expanded to treat adolescents.

The alcoholism Program is a hospital-based program which treats the disease of alcoholism as a family problem through the use of a skilled interdisciplinary team which includes medical, psychological, educational and counseling personnel. Registrant believes that about one-half of all patients treated also suffer from other chemical addictions, principally prescription drugs. The scheduled length of hospital stay for an adult patient is 21 days after detoxification, with an average stay of approximately 18 days. An adolescent patient's hospital stay averages approximately 45 days. The patient's recovery is monitored for a ten-week period following discharge during which the patient and family members return to the hospital once a week for out-patient counseling sessions.

The following table sets forth selected statistical information regarding the alcoholism treatment services provided by Registrant.

	Fiscal Year Ended May 31,				
	1977	1978	1979	1980	1981
Contract Programs					
Number of Contracts at end of period(1)	22	28	44	53	62
Average number of available beds during period	430	549	812	1,167	1,390
Patient days served during period	101,591	147,260	223,000	303,841	376,517
Average occupancy rate for period(2)	64.8%	73.7%	75.3%	71.2%	74.2%
Hospital Programs					
Number of hospitals at end of period(3)	2	3	4	5	6(4)
Average number of available beds during period(5)	111	140	212	254	283
Patient days served during period	21,696	27,274	45,627	68,613	78,628
Average occupancy rate for period(2)	53.4%	53.4%	58.9%	73.8%	82.0%(4)

- (1) Excludes Contracts executed as of the end of a period but not implemented pending governmental approval which are not operational on such date (23 Contracts with approximately 345 beds at May 31, 1981, 17 of which are awaiting governmental approval and six of which are operational or will be operational in the near future). No assurance can be given that Contracts awaiting governmental approval will be approved. Based on Registrant's prior experience, the approval

(Footnotes continued on following page)

process ordinarily takes six to eighteen months from the date a Contract is executed and may take as long as two years or more in certain cases. See "Governmental Regulation."

- (2) Average occupancy rate is calculated by dividing average patient days (total patient days divided by the total number of days in the period) by the average number of available beds during the relevant period.
- (3) Includes a 33-bed hospital managed by Registrant for the Joint Venture. See "Joint Ventures and Acquisitions."
- (4) As of May 1, 1981, Registrant totally dedicated its 104-bed Viewpark Community Hospital to alcoholism treatment. Prior to that date, 40 beds were dedicated to alcoholism treatment services and the balance to medical-surgical services. Although the occupancy rate of this hospital was substantially below average, it had little effect on the average occupancy rate since the hospital was operated as an alcoholism treatment hospital for only one month during the fiscal year.
- (5) A hospital may have appropriate licenses for more beds than are in service for a number of reasons, including lack of demand, anticipation of future needs, seasonality and practical limitations in assigning patients to multiple-bed rooms. Available beds means the number of beds which are available for use at any given time.

Under a CareUnit Contract the contracting hospital is responsible for providing Registrant with all hospital facilities and services (including beds, nursing staff, diagnostic facilities, offices for Registrant's staff and recreational areas for patients) necessary to assist Registrant in its treatment of patients. Registrant's responsibility under the Contract is to provide a trained team (the "CareUnit Team") consisting of a physician (who is a member of the hospital's staff and serves as the medical director for the Program), a program coordinator, a psychologist, an alcoholism therapist, a social worker and appropriate supporting counselors. The CareUnit Team receives support from Registrant in the areas of Program implementation and management, therapy team training, staff recruiting, continuing education, nurse and hospital employee training, community education, advertising, public relations and on-going Program quality assurance.

CareUnit Contracts are generally entered into for a two-year period; thereafter either party may terminate the Contract by giving 90 days' written notice of termination. A significant number of Contracts are terminable on 90 days' notice. During the period June 1, 1976 to May 31, 1981, a total of 16 Contracts were terminated, of which eight were terminated by Registrant and eight by contracting hospitals. Eight of the 16 hospitals have subsequently offered alcoholism treatment services.

Patients are admitted to a CareUnit Program through the hospital's standard admission policies and procedures. The hospital submits to the patient or the patient's insurance company a bill which covers the services of both the hospital and Registrant. The hospital pays Registrant a fixed monthly management fee plus a fixed fee for each patient day of service provided. Fees paid to Registrant are subject to annual adjustments to reflect increases in the National Consumer Price Index. Registrant and the hospital share the risk of non-payment by patients based on a predetermined percentage participation by Registrant in bad debts. To date, Registrant's share of such bad debts has not exceeded 6% of Registrant's Contract revenues in any one year.

Psychiatric Treatment Services

Acute psychiatric treatment services are provided in a hospital operated by Registrant, a hospital managed by Registrant's partner in the Joint Venture and four independent general hospitals which have entered into StressCenter contracts ("Contracts") with Registrant pursuant to a program Registrant developed and introduced in 1975. The psychiatric Program is a hospital-based short-term

program which provides patients suffering from acute emotional problems with diagnostic and therapeutic treatment services conducted by an interdisciplinary team of experienced professionals. Admission to the Program is voluntary and treatment is tailored to the needs of the patient. The treatment includes one-to-one as well as group psychotherapy; other treatment methods used include occupational and activities therapy. The length of a patient's stay in a hospital varies with the diagnosis and severity of the patient's condition but rarely exceeds 90 days.

The terms of StressCenter Contracts are similar to those of CareUnit Contracts, except that the StressCenter Team provided by Registrant is comprised of a psychiatrist (who serves as medical director), a program coordinator, a psychologist, an occupational therapist, a social worker and appropriate supporting counselors. None of Registrant's StressCenter Contracts has been terminated to date.

The following table sets forth selected statistical information regarding psychiatric treatment services provided by Registrant or its partner in the Joint Venture.

	Fiscal Year Ended May 31,				
	1977	1978	1979	1980	1981
Contract Programs					
Number of Contracts at end of period(1)	1	2	2	3	4
Average number of available beds during period	28	40	44	47	72
Patient days served during period	5,519	10,005	11,420	12,710	20,197
Average occupancy rate for period(2)	58.2%	68.0%	71.1%	73.2%	76.9%
Hospital Programs					
Number of hospitals at end of period(3)	3	2	2	2	2
Average number of available beds during period(4)	246	233	202	202	202
Patient days served during period	61,508	54,081	49,117	55,147	59,107
Average occupancy rate for period(2)	68.5%	63.6%	66.6%	74.6%	80.2%

(1) Excludes Contracts executed as of the end of a period but not implemented pending governmental approval or which are not operational on such date (six Contracts with approximately 90 beds at May 31, 1981, of which three are awaiting governmental approval and the other three are operational or will be operational in the near future). No assurance can be given that Contracts awaiting governmental approval will be approved. Based on Registrant's prior experience, the approval process ordinarily takes six to eighteen months from the date the Contract is executed and may take as long as two years or more in certain cases. See "Governmental Regulation."

(2) Average occupancy rate is calculated by dividing average patient days (total patient days divided by the total number of days in the period) by the average number of available beds during the relevant period.

(3) Includes a 117-bed hospital leased by Registrant and managed by Registrant's partner in the Joint Venture. See "Joint Ventures and Acquisitions."

(4) A hospital may have licenses for more beds than are in service for a number of reasons, including lack of demand, anticipation of future needs, seasonality and practical limitations in assigning patients to multiple-bed rooms. Available beds means the number of beds which are available for use at any given time.

Other Health Care Services and Supporting Activities

Viewpark Community Hospital. As of May 1, 1981, Registrant totally dedicated its 104-bed Viewpark Community Hospital to alcoholism treatment. Prior to that date, 40 beds were dedicated to alcoholism treatment services and the balance to medical-surgical services. For the fiscal years ended May 31, 1980 and 1981, the pre-tax operating losses of Viewpark were \$796,000 and \$436,000, respectively. This hospital accounted for approximately 10% of Registrant's total revenues in fiscal 1981.

Long-term Care Facilities. Registrant owns and operates a 59-bed extended care facility and a 72-bed residential care facility, and leases and operates a 99-bed intermediate care facility. Extended care facilities provide skilled nursing, convalescent, rehabilitative and sustaining care over extended periods of time to persons who do not require the more extensive care and supervision provided in a general hospital. Intermediate care facilities provide similar care on a less extensive basis and residential care facilities primarily provide room and food service with minimal care and supervision. For the fiscal year ended May 31, 1981, the average occupancy rate for these three facilities, based on the number of available beds, was 97%. These facilities accounted for approximately 4% of Registrant's total revenues in fiscal 1981. Registrant does not intend to expand its long-term care operations and desires to convert such facilities to alcoholism or psychiatric treatment facilities or dispose of them.

Publishing Activities. Since 1976, Registrant (under the name CompCare Publications) has been engaged in the publication, distribution and sale of books, pamphlets and brochures relating to Registrant's health care activities and to other lifestyle management subjects such as weight and smoking control. The primary purpose of these activities is to support the Registrant's treatment, training and marketing programs. Literature distributed by Registrant is sold to patients participating in a Program both by contracting hospitals and hospitals operated by Registrant. To a limited extent, such literature is also sold to the general public and educational institutions. Registrant does not own or operate the printing facilities used in the publication of its literature. Publishing activities accounted for approximately 2% of Registrant's total revenues in fiscal 1981.

Marketing. Registrant has an active public relations program designed to increase public awareness of the treatment services offered by Registrant and of alcoholism and acute emotional problems as illnesses. During fiscal 1981, Registrant spent \$3,405,000 (6.4% of revenues) for all advertising. Registrant's advertising program includes a series of television commercials advertising Registrant's treatment services.

The forms of media used are specifically geared to the geographic area in which the marketing efforts are directed. Accordingly, the focal point in Registrant's public relations program is the program coordinator, whose role, in the local community, is to identify referral sources and to carry out all marketing activities, including promotional campaigns, media coverage, conferences and distribution of literature, necessary to make the local community aware of the Program. Each program coordinator is assisted on an on-going basis by the Registrant's various support services.

Other aspects of Registrant's public awareness program include a nationwide telephone hotline which is staffed by counselors who provide advice and help on a 24-hour basis; a Crisis Intervention Program which assists relatives of alcoholics or emotionally disturbed individuals in motivating a potential patient to seek professional help through an appropriate Program; and Care Institute conferences which are alcoholism educational programs designed for health professionals. In fiscal 1980, Registrant also introduced its Occupational Program Service which is designed to encourage and assist businesses in developing Employee Assistance Programs. The Employee Assistance Programs are aimed at employees who exhibit deteriorating job performance related to alcoholism, mental illness or other personal problems. The cost effectiveness of treating such employees has caused a number of companies to develop Employee Assistance Programs during the last several years.

Registrant's marketing efforts are also directed toward increasing the number of its Contracts for Programs. Registrant has a 15-person market development staff which identifies and approaches general community hospitals which are potential participants in Registrant's Programs. To be considered for a Program, a hospital normally must serve a community with a population of at least 100,000, have at least 100 licensed beds, be able to provide a minimum of 15 beds for inclusion in a Program and have a satisfactory reputation and financial condition. The success of Registrant in selling its Programs depends upon its reputation as well as its ability to demonstrate to hospitals the merits of providing alcoholism and psychiatric treatment services through Contracts with Registrant rather than the hospitals providing such services themselves. In Registrant's opinion, the principal advantages to hospitals include the quality and reputation of Registrant's Programs, comprehensive advertising and public relations services, a reduced start-up period due to Registrant's experience in implementing Programs and processing certificate of need applications (see "Governmental Regulation"), reduced start-up costs and risk (because Registrant bases its compensation on bed occupancy and assumes a share of bad debts) and the availability of Registrant's Program support services, including training, management, public education and quality assurance.

Competition

Registrant is the largest private provider of hospital-based alcoholism treatment services in the United States. Registrant's main competitors with respect to its Contract alcoholism and psychiatric treatment services are general hospitals which elect to offer such services directly rather than through an independent health care management company. There are many general hospitals with acute psychiatric units and a limited but growing number of general hospitals with alcoholism treatment units.

The primary competitive factors in attracting referral sources, patients and physicians are reputation, success record, quality of care and location and scope of services offered by a facility. Some of the hospitals which compete with Registrant are either owned or supported by governmental agencies or are owned by non-profit corporations supported by endowments and charitable contributions which enables some of these hospitals to provide a wider range of services regardless of cost effectiveness.

Sources of Revenues

During fiscal 1981, approximately 90% of Registrant's operating revenues were received from private sources (private health insurers or directly from patients or contracting hospitals for the CareUnit and StressCenter Programs) and the balance from Medicare and Medicaid.

Governmental Regulation

The development and operation of health care facilities is subject to compliance with various federal, state and local statutes and regulations. Hospitals and other health care facilities operated by Registrant as well as hospitals under Contract for a CareUnit or StressCenter Program must comply with the licensing requirements of the federal, state and local health agencies, and with the requirements of municipal building codes, health codes and local fire departments. In granting and renewing a facility's license, a health agency considers, among other things, the physical buildings and equipment, the qualifications of the administrative personnel and nursing staff, the quality of nursing and the continuing compliance of such facility with the laws and regulations applicable to its operations. State licensing of facilities is a prerequisite to participation in Medicare and Medicaid programs.

Each of Registrant's hospitals and other health care facilities is duly licensed in accordance with the requirements of state and local agencies having jurisdiction over its operations.

Pursuant to the requirements of federal law, all states have enacted Certificate of Need ("CON") legislation, the purpose of which is to curtail the proliferation of unnecessary health care services.

Thus, prior to the introduction of new facilities, the expansion of old facilities or the introduction of major new services (such as the CareUnit or StressCenter Programs) in existing facilities, Registrant (in the case of its facilities), or the contracting hospital for a CareUnit or StressCenter Program, must demonstrate to either state or local authorities, or both, that it is in compliance with the plan adopted by such agencies. Registrant, because of its experience in the processing of the CON documentation required for such Programs, usually prepares such documentation on behalf of the contracting hospital, with the assistance of the hospital. To date, Registrant has had three CON applications denied which are currently being appealed, and one application which was withdrawn by Registrant because it anticipated that the application would be denied. The CON application process ordinarily takes from six to eighteen months, and may in some instances take two years or more, depending upon the state involved and whether the application is contested by a competitor or the health agency. As of May 31, 1981, there were 17 CON applications pending for CareUnit Programs and three for StressCenter Programs.

The Joint Commission on the Accreditation of Hospitals ("JCAH"), at a facility's request, will participate in the periodic surveys which are conducted by state and local health agencies to insure continuous compliance with all licensing requirements by health care facilities. JCAH accreditation is not available for extended, intermediate and residential care facilities. JCAH accreditation satisfies the certification requirements for participation in Medicare and Medicaid programs. A facility found substantially to comply with JCAH standards receives accreditation for a two-year period. A patient's choice of a treatment facility may be affected by JCAH accreditation considerations because most major third-party payors limit coverage to services provided by an accredited facility. All of the hospitals operated by Registrant and hospitals under Contract have received JCAH accreditation with the exception of Alcenias Hospital for which such accreditation has not been sought.

Both Medicare and Medicaid programs contain specific physical plant, safety, patient care and other requirements which must be satisfied by health care facilities in order to qualify under said programs. Registrant believes that the facilities it owns or leases are in substantial compliance with the various Medicare and Medicaid regulatory requirements applicable to them.

In recent years numerous hospital cost containment proposals have been introduced in Congress. To date, no hospital cost containment legislation has been enacted by Congress and Registrant is unable to predict whether any such legislative proposals will be adopted or the form in which they might be adopted. If any such legislation is passed and reimbursement methods similar to those now utilized under the Medicare and Medicaid programs are enacted, Registrant's earnings may be negatively impacted.

Administration and Employees

Registrant's executive and administrative offices are located in Newport Beach, California where management controls accounting, medical insurance claims, governmental and statistical reporting, advertising and public relations, research and treatment progress evaluation. Registrant's marketing, human resources and contract divisions are headquartered in its Bridgeton, Missouri regional office, which is also the site of Registrant's primary training center.

At May 31, 1981, Registrant employed approximately 110 persons in its corporate and administrative offices, 980 persons in the hospitals and long-term health care facilities operated by it,

and 260 persons assigned to its CareUnit and StressCenter Teams. The physicians and psychiatrists who are the medical directors of Registrant's CareUnit and StressCenter Teams, the psychologists serving on said teams and the doctors utilizing the hospitals and long-term care facilities operated by Registrant are independent contractors.

Registrant has not encountered any work stoppages due to labor disputes with its employees and its operations have not been disrupted by the present nationwide shortage of nurses. Although Registrant has expanded rapidly in the last five years, it has not experienced any significant difficulty in attracting competent employees.

Joint Ventures and Acquisitions

In 1972 Registrant entered into a joint venture (the "Joint Venture") with American Psychiatric Hospitals of California, Inc. ("APHI") for the purpose of operating Woodview-Calabasas Hospital and Crossroads Hospital. APHI manages Woodview-Calabasas Hospital (which is leased by the Company from an unrelated third party) and Registrant manages Crossroads Hospital (which is leased by the Joint Venture from APHI).

In May 1981, Registrant entered into two joint ventures in Florida organized for the purpose of owning and operating 88-bed and 120-bed alcoholism treatment facilities to be constructed in Jacksonville Beach and Tampa on properties owned by the joint ventures. Registrant has a 50% interest in each joint venture and has agreed to loan up to \$2,750,000 and \$4,000,000, respectively, to the joint ventures for the purpose of constructing, furnishing and equipping such facilities. Such loans are repayable three years from the dates the obligations are incurred. They will bear interest at the prime rate plus two percent and will be secured by first mortgages against the facilities. Registrant anticipates that subsequent to the construction and furnishing of the Florida facilities, the joint ventures will be able to borrow a portion of the amounts expended by means of permanent financings secured by such facilities. Registrant will manage each facility for a management fee of 6% of the facility's gross revenues and Registrant and its partners will share the joint ventures' profits and losses in proportion to their respective joint venture interests. Construction of the Jacksonville Beach facility commenced in July 1981 and is expected to be completed in early 1982, with operations to commence by April 1982. Construction of the Tampa facility is scheduled to commence in October 1981 and is expected to be completed in mid-1982, with operations to commence by September 1982.

In February 1981, Registrant purchased CareManor Hospital in Orange, California which it had been leasing since 1976. The purchase price for this facility was approximately \$1,100,000, of which approximately \$500,000 was paid in cash and \$600,000 by the assumption of a promissory note payable in installments through November 1994, bearing interest at the rate of approximately 10% per annum and secured by a deed of trust on the facility.

In April 1981, Registrant acquired the leasehold interest, equipment and business of the prior lessee of Alcenaz Hospital in Seattle, Washington for \$1,400,000, payable monthly over 10 years with interest at 10%. Registrant managed this facility from 1978 to 1981.

In April 1981, Registrant purchased Bayview Manor in Costa Mesa, California which it had been leasing since 1971. The purchase price for this facility was approximately \$905,000, of which approximately \$601,000 was paid in cash and approximately \$304,000 in the form of four promissory notes which are payable at various dates through 1996 and bear interest at rates of 10% to 12% per annum. The notes are secured by a deed of trust on the property.

In April 1981, Registrant leased a facility in Brea, California for use as offices and entered into an agreement to purchase the facility in October 1981 for \$400,000. Such facility will be renovated at a cost of approximately \$150,000.

In May 1981, Registrant purchased property adjacent to the Trinity Oaks alcoholism treatment hospital for \$215,000, of which \$100,000 is payable by a three-year promissory note secured by such

property. In July 1981, Registrant entered into an agreement to purchase Trinity Oaks (which it has been leasing since 1971) for \$1,350,000, and anticipates that the purchase will be completed in August 1981. Registrant has received a CON to expand such hospital from 28 licensed beds to 43 licensed beds. Such expansion will cost approximately \$750,000 and is expected to be completed by February 1982.

In June 1981, Registrant entered into an agreement to purchase a 59-bed convalescent hospital, including furnishings, in Oklahoma City, Oklahoma for approximately \$1,650,000. Approximately \$450,000 is payable at the date of purchase and the balance by a ten-year 14% interest bearing promissory note secured by such property. Such purchase is conditioned upon the issuance of a CON prior to March 18, 1982 authorizing the use of that facility as an adolescent alcoholism treatment hospital with 59 licensed beds. If the CON is issued, Registrant will renovate and partially refurnish the hospital at an estimated cost of approximately \$500,000. Although there can be no assurance that a CON will be granted, Registrant presently anticipates that the facility will be in operation by September 1982.

On July 2, 1980, Registrant purchased St. George Hospital, an acute care hospital, together with approximately 12½ acres of otherwise unimproved land in Cincinnati, Ohio, for \$4,000,000. Registrant has obtained a CON authorizing the use of that facility as an alcoholism treatment facility with 84 licensed beds. Registrant is leasing the hospital back to the seller at a monthly rental of approximately \$73,000 pending construction and occupancy of a new hospital by the seller. Registrant anticipates that it will operate the hospital as an alcoholism treatment facility by mid-1982. Registrant has an agreement in principle to become a 50% partner in a joint venture with members of the Kemper Insurance Group ("Kemper") to be formed for the purpose of acquiring the hospital from Registrant at the time the same becomes operational. Kemper has agreed in principle to loan \$4,000,000 to the joint venture for the purchase of the hospital. Such loan would be repaid in monthly installments over 12 years. Registrant would receive a management fee of 7% of the hospital's gross revenues, and Registrant and Kemper would equally share the joint venture's profits and losses.

Item 2. Properties.

The following table sets forth certain information regarding the properties owned or leased by Registrant at May 31, 1981:

Name and Location	No. Licensed Beds	Owned or Leased	Calendar Year of Acquisition, or Lease	Lease Expires(1)	Monthly Rental(2)
Alcoholism Treatment Facilities					
Crossroads Hospital(3) Van Nuys, California	33	Leased	1972	1997	\$ 5,577
Alcenas Hospital(4) Seattle, Washington	82	Leased	1961	2035	11,000(5)
Trinity Oaks Hospital(6) Fort Worth, Texas	34(6)	Leased	1971	1996	5,353(7)
Shenandoah Lodge(8) Harrisburg, Virginia	24	Leased	1979	1992	4,375(9)
CareManor Hospital(10) Orange, California	94	Owned	1981	-	-
Viewpark Community Hospital Los Angeles, California	104	Owned	1978	-	-

Name and Location	No. Licensed Beds	Owned or Leased	Calendar Year of Acquisition, or Lease	Lease Expires(1)	Monthly Rental(2)
Psychiatric Treatment Facilities					
Brea Hospital	142	Leased	1969	1986	15,965(7)
Brea, California					
Woodview-Calabasas Hospital(11)	117	Leased	1970	1996	19,227(7)(12)
Calabasas, California					
Other Health Care Facilities					
Bayview Convalescent Hospital	59	Owned	1969	—	—
Costa Mesa, California (Extended care facility)					
Tustin Manor	99	Leased	1970	1995	7,754(7)
Tustin, California (Intermediate care facility)					
Bay View Manor(13) ..	72	Owned	1981	—	—
Costa Mesa, California (Residential care facility)					
Administrative Facilities					
	Square Feet				
Corporate Headquarters Newport Beach, California	14,896	Leased	1976	1996	8,734
Regional Headquarters Bridgeton, Missouri	18,759	Leased	1979	1989	13,678

- (1) Assumes all options to renew will be exercised.
- (2) All leases, other than those relating to Registrant's administrative facilities, are triple net leases under which Registrant bears all costs of operations, including insurance, taxes and utilities. Registrant is responsible for specified percentages of increases in taxes, assessments and operating costs relating to its administrative facilities.
- (3) Leased by the Joint Venture and managed by Registrant. Registrant contends that this facility is licensed for 43 beds, although regulatory authorities contend that it is licensed for only 33 beds.
- (4) Managed by Registrant from 1978 to 1981. See "Joint Ventures and Acquisitions."
- (5) Subject to increase every three years based upon increases in the Consumer Price Index, not to exceed 10%.
- (6) See "Joint Ventures and Acquisitions." In May 1981 Registrant obtained a license increasing the number of licensed beds from 26 to 34.
- (7) Subject to increase every five years based upon increases in the Consumer Price Index.

(Footnotes continued on following page)

- (8) Registrant has an option to purchase this facility prior to June 1982 for \$375,000, subject to adjustment at the time the sale is consummated based upon increases in the Consumer Price Index after January 1980.
- (9) Subject to annual increases based upon a specified formula, but not to exceed 6% per year.
- (10) Leased by Registrant from 1976 to 1981. See "Joint Ventures and Acquisitions."
- (11) Leased by Registrant and managed by the Registrant's partner in the Joint Venture.
- (12) Subject of a legal action commenced in December 1979 by the lessor who contends that a 1971 amendment to the lease, which reduces the amount of basic rent subject to five-year increases based upon the Consumer Price Index from \$177,600 to \$47,600, is void for lack of consideration. The amount of rent in dispute was approximately \$4,000 per month from January 1980 to June 1981 and increased to approximately \$13,000 per month commencing in June 1981.
- (13) Leased by Registrant from 1971 to 1981. See "Joint Ventures and Acquisitions."

Item 3. Legal Proceedings.

Registrant is subject to claims and suits in the ordinary course of its business, including those arising from patient treatment, injuries or death which are ordinarily covered by insurance.

Registrant was not engaged in any material legal proceedings as of May 31, 1981.

Item 4. Security Ownership of Certain Beneficial Owners and Management.

There is hereby incorporated by reference the information which will appear under the captions "General Information" and "Election of Directors" in a Proxy Statement to be filed with the Securities and Exchange Commission relating to Registrant's Annual Meeting of Stockholders to be held on October 1, 1981.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters.

(a) Registrant's Common Stock is traded in the over-the-counter market and is quoted on NASDAQ under the symbol CMPH. The following table sets forth the range of high and low bid prices for the Common Stock for the fiscal quarters indicated. All quotations have been adjusted to give effect to the two-for-one stock splits paid on July 26, 1979 and July 21, 1981, respectively, and have been rounded to the nearest one-eighth. Such prices represent interdealer quotations without adjustment for retail markup, markdown or commission and do not necessarily represent actual transactions.

	Bid Price	
	High	Low
1980: First Quarter	\$ 7 $\frac{1}{8}$	\$ 3 $\frac{3}{8}$
Second Quarter	7 $\frac{7}{8}$	5
Third Quarter	8 $\frac{1}{4}$	6 $\frac{1}{2}$
Fourth Quarter	8 $\frac{3}{8}$	5 $\frac{1}{2}$
1981: First Quarter	10 $\frac{1}{8}$	8
Second Quarter	12 $\frac{5}{8}$	9 $\frac{3}{4}$
Third Quarter	13 $\frac{1}{8}$	10 $\frac{1}{8}$
Fourth Quarter	20 $\frac{1}{8}$	12 $\frac{3}{4}$

(b) The approximate number of holders of Common Stock of Registrant as of July 10, 1981 was 2,305.

(c) Registrant paid \$.02 and \$.025 per share cash dividends on a quarterly basis during the fiscal years ended May 31, 1980 and May 31, 1981, respectively, or an aggregate of \$.08 and \$.10 per share for those years. Registrant intends to continue to pay regular cash dividends in the future, although the payment of such dividends will be dependent upon the earnings, financial position and cash requirements of Registrant and other relevant factors existing at the time. Registrant has a bank line of credit which restricts the payment of cash dividends after May 31, 1980 to that amount by which Registrant's net worth exceeds \$7,000,000 increased by 70% of its net earnings subsequent to such date.

Item 5. Selected Financial Data.

Item 5. Selected Financial Data:

	Year Ended May 31,				
	1977	1978	1979	1980	1981
	(Dollars in thousands, except per share data)				
Income Statement Data:					
Revenues					
Operating	\$13,981	\$18,417	\$28,726	\$38,979	\$51,351
Interest	14	3	37	67	1,232
Other	135	140	118	127	173
	<u>14,130</u>	<u>18,560</u>	<u>28,881</u>	<u>39,173</u>	<u>52,756</u>
Cost and expenses					
Operating	8,418	11,203	17,005	23,310	29,422
General, administrative and marketing ..	3,748	4,490	6,849	9,152	12,186
Depreciation and amortization	513	580	741	863	972
Interest	464	523	547	613	617
	<u>13,143</u>	<u>16,796</u>	<u>25,142</u>	<u>33,938</u>	<u>43,197</u>
Earnings before taxes on income and extra-ordinary item	987	1,764	3,739	5,225	9,559
Net earnings(1)	555	903	1,871	2,625	4,712
Earnings per common share(1)					
Primary .....	.11	.15	.29	.41	.66
Fully diluted .....	.09	.15	.29	.38	.62
Cash dividends per share .....	.01	.025	.035	.08	.10

	At May 31,				
	1977	1978	1979	1980	1981
	(Dollars in thousands)				
Balance Sheet Data:					
Working capital	\$ 793	\$ 1,688	\$ 3,321	\$ 4,283	\$16,940
Total assets	10,973	12,454	17,419	20,074	40,982
Long-term debt	5,348	5,759	7,052	6,700	7,686
Stockholders' equity	2,631	3,396	5,809	7,916	23,420

(1) Excludes extraordinary gain of \$276,000 (\$.05 per share) for 1977 which resulted from the utilization of a net operating loss carryforward for Federal tax purposes.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table sets forth for the periods indicated (i) percentages which certain items reflected in the financial data bear to total revenues and (ii) the percentage increase of such items as compared to the indicated prior period:

	Relationship to Total Revenues			Period to Period Increase	
	Year Ended May 31.			Years Ended	
	1979	1980	1981	1979-80	1980-81
Operating revenue	99.5%	99.5%	97.3%	35.7%	31.7%
Interest income	.1	.2	2.3	81.1	1738.8
Other revenue	.4	.3	.4	7.6	36.2
	100.0	100.0	100.0	35.6	34.7
Operating expense	58.9	59.5	55.8	37.1	26.2
General administrative and marketing	23.7	23.4	23.1	33.6	33.3
Depreciation and amortization	2.6	2.2	1.8	16.5	12.6
Interest	1.9	1.6	1.2	12.1	.7
Earnings before taxes on income	12.9	13.3	18.1	40.0	82.6
Taxes on income	6.4	6.6	9.2	39.7	85.7
Net earnings	6.5	6.7	8.9	40.3	79.5

Results of Operations

During the past three years, Registrant's revenues have increased at a slightly higher rate than its expenses, resulting in a gradually improving pretax margin. Revenue increases have been generated by increases in the utilization of Registrant's existing facilities, the addition of new facilities and by price increases. Facility utilization varies as to its impact on revenues depending on the type of services provided and the method of delivery employed. Increased utilization of Registrant's free standing alcoholism and psychiatric facilities has a greater effect on revenues than does increased utilization of CareUnit or StressCenter Contract operations. This difference is primarily attributable to higher prices charged for each day of service rendered in hospital operations where a broader range of patient care services is provided. Reflecting this fact, the contribution to total revenues of Registrant's free standing hospitals in fiscal 1981 was approximately equal to that of its Contract operations. Registrant's 142 bed psychiatric hospital in Brea, California is a significant contributor to total revenues and net income.

Operating revenues for fiscal 1980 and 1981 increased 35.7% and 31.7%, respectively. Approximately 50% of such increases resulted from higher occupancy rates, approximately 25% from the addition of new facilities and the balance from price increases.

Fiscal 1981 was the first year in which interest income was significant. The increase in interest income of \$1,165,000 in fiscal 1981 was due to the investment in interest bearing securities of a substantial portion of the proceeds from Registrant's sale of 1,200,000 shares of Common Stock in November 1980.

Registrant's pre-tax margin rose from . . . % in fiscal 1980 to 18.1% in fiscal 1981. A significant factor in this increase was the interest income resulting from Registrant's 1980 public offering. Without such income, the pre-tax margin would have been 16.2% for fiscal 1981. The pre-tax margin increase for fiscal 1981 not attributable to interest income and the increase in pre-tax margin from 12.9% in 1979 to 13.3% in 1980 was due primarily to higher occupancy rates for Registrant's existing facilities and also to price increases.

Liquidity and Capital Commitments

Cash flow from operations increased in fiscal 1981 due primarily to increased earnings despite a 16% decline in receivables turnover. This, coupled with the proceeds of the public offering received

in November 1980, produced a current ratio of 2.7:1 at May 31, 1981 compared to 1.8:1 at May 31, 1980. Accounts receivable turnover increased from 55 days at May 31, 1980 to 62 days at May 31, 1981. Management believes this increase reflects the general tightening of the economy and high interest rates.

Registrant has committed approximately \$14,400,000 for investment in new operations and refurbishment of existing facilities during fiscal 1982. Of such amount, \$4,000,000 was expended on July 2, 1981 to purchase St. George Hospital in Cincinnati, Ohio. This facility is being leased back to the seller pending its construction and occupancy of a new hospital. Registrant has an agreement in principle to organize a joint venture to operate the facility as an alcoholism treatment hospital and the other partner has agreed to loan the joint venture \$4,000,000 to purchase the facility from Registrant when it is vacated by the seller. Registrant intends to obtain secured financing for a portion of its other major acquisition and refurbishment expenditures when and as funds become available at more favorable interest rates.

Registrant has a \$3,000,000 bank line of credit which was unused at May 31, 1981. Because of its expected cash flow from earnings, bank line of credit, present cash on hand and the possibility of obtaining secured financing for a portion of its major planned expenditures, Registrant believes it will have no difficulty in meeting its obligations during the coming fiscal year.

Impact of Inflation

Inflation has become a significant factor in the nation's economy. To cope with its effect on increasing expenses, Registrant regularly raises prices charged at its leased and owned facilities. Registrant's CareUnit and StressCenter Contracts provide for annual price increases to reflect increases in the National Consumer Price Index.

Item 8. Financial Statements and Supplementary Data.

COMPREHENSIVE CARE CORPORATION INDEX TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended May 31, 1981, 1980 and 1979

	<u>Page Number</u>
Report of Independent Certified Public Accountants	14
Consolidated financial statements of Comprehensive Care Corporation and Subsidiaries:	
May 31, 1981 and 1980:	
Consolidated balance sheet	15
Year Ended May 31, 1981, 1980 and 1979:	
Consolidated statement of earnings	16
Consolidated statement of stockholders' equity	17
Consolidated statement of changes in financial position	18
Notes to consolidated financial statements (a) (b)	19-31

(a) Including selected quarterly financial data.

(b) Including Comprehensive Care Corporation (parent only) financial statements in Note 12.

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, 1981 and 1980, and the related consolidated statements of earnings, stockholders' equity and the changes in financial position for each of the three years in the period ended May 31, 1981. 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, 1981 and 1980, and the results of their operations and changes in their financial position for each of the three years in the period ended May 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

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

Newport Beach, California
July 16, 1981

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS

	May 31,	
	1981	1980
Current assets:		
Cash, including time deposits of \$12,000,000, 1981	\$14,599,000	\$ 1,023,000
Accounts receivable, less allowance for doubtful accounts of \$1,480,000, 1981 and \$512,000, 1980	10,720,000	7,357,000
Inventories (Note 1)	555,000	348,000
Prepaid insurance	586,000	477,000
Prepaid expenses	296,000	536,000
Total current assets	<u>26,756,000</u>	<u>9,741,000</u>
Property and equipment, at cost (Notes 3, 5 and 8):		
Land and improvements	1,319,000	892,000
Building and improvements	5,803,000	3,366,000
Furniture and equipment	3,725,000	2,893,000
Leasehold improvements	763,000	558,000
Capital leases	4,695,000	5,477,000
	16,305,000	13,186,000
Less accumulated depreciation and amortization	<u>4,583,000</u>	<u>4,121,000</u>
Total property and equipment	<u>11,722,000</u>	<u>9,065,000</u>
Other assets:		
Costs in excess of net assets of businesses purchased (Notes 1 and 9)	1,066,000	382,000
Notes receivable	393,000	277,000
Other (Note 7)	1,045,000	809,000
Total other assets	<u>2,504,000</u>	<u>1,268,000</u>
	<u><u>\$40,982,000</u></u>	<u><u>\$20,074,000</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 2,393,000	\$ 2,179,000
Accrued salaries and wages	1,688,000	860,000
Accrued advertising	1,439,000	674,000
Payable to third-party intermediaries	713,000	470,000
Long-term debt payable within one year (Notes 3 and 9)	857,000	369,000
Income taxes payable	2,588,000	659,000
Deferred income taxes	158,000	247,000
Total current liabilities	<u>9,816,000</u>	<u>5,458,000</u>
Long-term debt due after one year (Notes 3 and 9)	7,688,000	6,700,000
Lease Commitments (Note 5)		
Stockholders' equity (Note 4):		
Common stock \$.10 par value; authorized 20,000,000 shares; issued and outstanding, 7,685,972 shares, 1981, and 6,467,368 shares, 1980	769,000	323,000
Additional paid-in capital	13,544,000	2,431,000
Retained earnings	9,167,000	5,162,000
Total stockholders' equity	<u>23,480,000</u>	<u>7,916,000</u>
	<u><u>\$40,982,000</u></u>	<u><u>\$20,074,000</u></u>

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

	Year Ended May 31,		
	1981	1980	1979
Revenues (Note 1):			
Operating	\$51,351,000	\$38,979,000	\$26,728,000
Interest	1,232,000	67,000	37,000
Other	173,000	127,000	118,000
	<u>52,756,000</u>	<u>39,173,000</u>	<u>28,881,000</u>
Costs and expenses:			
Operating	29,422,000	23,310,000	17,005,000
General, administrative and marketing	12,186,000	9,152,000	6,849,000
Depreciation and amortization (Notes 5 and 8) ...	972,000	863,000	741,000
Interest	617,000	613,000	547,000
	<u>43,197,000</u>	<u>33,938,000</u>	<u>25,142,000</u>
Earnings before taxes on income	9,559,000	5,235,000	3,739,000
Taxes on income (Note 7)	4,847,000	2,610,000	1,868,000
Net earnings	<u>\$ 4,712,000</u>	<u>\$ 2,625,000</u>	<u>\$ 1,871,000</u>
Earnings per common share (Note 1):*			
Primary	<u>\$.66</u>	<u>\$.41</u>	<u>\$.29</u>
Assuming full dilution	<u>\$.62</u>	<u>\$.38</u>	<u>\$.29</u>

* Adjusted for two-for-one stock split effected July 10, 1981.

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 (Note 1)	6,227,368	\$ 130,000	\$ 1,836,000	\$1,430,000
Net earnings				1,871,000
Shares issued in connection with facility acquisition	240,000	6,000	782,000	
Six-for-five stock split		26,000	(26,000)	
Dividends				(246,000)
Balances, May 31, 1979	6,467,368	162,000	2,592,000	3,055,000
Net earnings				2,625,000
Two-for-one stock split		161,000	(161,000)	
Dividends				(518,000)
Balances, May 31, 1980	6,467,368	323,000	2,431,000	5,162,000
Net earnings				4,712,000
Additional shares issued in public offering concluded November 7, 1980	1,200,000	60,000	11,449,000	
Conversion of 9% convertible note	18,604	1,000	49,000	
Dividends				(707,000)
Two-for-one stock split to be effected July 10, 1981		385,000	(385,000)	
Balances, May 31, 1981	<u>7,685,972</u>	<u>\$ 769,000</u>	<u>\$13,544,000</u>	<u>\$9,167,000</u>

See notes to consolidated financial statements.

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

	Year Ended May 31,		
	1981	1980	1979
Financial resources provided by:			
Operations			
Net earnings	\$ 4,712,000	\$ 2,625,000	\$ 1,871,000
Items not requiring outlay of working capital:			
Depreciation and amortization of property and equipment	972,000	863,000	741,000
Deferred income taxes	(100,000)	(120,000)	161,000
Amortization and write-off of goodwill	5,000		135,000
Working capital provided by operations	5,589,000	3,368,000	2,908,000
Disposal of property and equipment	60,000	17,000	427,000
Additional long-term debt	3,273,000	6,000	2,523,000
Issuance of common stock	11,559,000		788,000
	<u>20,481,000</u>	<u>3,391,000</u>	<u>6,648,000</u>
Financial resources used for:			
Purchases of property and equipment	4,812,000	1,615,000	3,119,000
Elimination of capital lease costs net of capital lease obligations of purchased facilities	254,000		
Reduction of long-term debt	908,000	368,000	1,238,000
Increase in costs in excess of net assets of business purchased	691,000		
Dividends	707,000	518,000	246,000
Increase in notes receivable	116,000	5,000	272,000
Other applications	338,000	(67,000)	145,000
	<u>7,824,000</u>	<u>2,439,000</u>	<u>5,018,000</u>
Increase in working capital	<u>\$12,657,000</u>	<u>\$ 952,000</u>	<u>\$ 1,630,000</u>
Summary of changes in components of working capital:			
Increase (decrease) in current assets:			
Cash	\$13,576,000	\$ (544,000)	\$ 657,000
Accounts receivable	3,363,000	2,183,000	1,771,000
Inventories and prepaid expenses	76,000	223,000	470,000
	<u>17,015,000</u>	<u>1,862,000</u>	<u>2,898,000</u>
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities	1,807,000	969,000	1,164,000
Payable to third-party intermediaries	243,000	19,000	(99,000)
Long-term debt payable within one year	488,000	27,000	(144,000)
Income taxes payable	1,820,000	(105,000)	347,000
	<u>4,358,000</u>	<u>910,000</u>	<u>1,268,000</u>
Increase in working capital	<u>\$12,657,000</u>	<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, 1981, 1980 and 1979

Note 1 -- Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and the Company's 50% interest in the accounts of a joint venture partnership. (See Note 2.) All significant intercompany accounts and transactions have been eliminated in consolidation. All appropriate amounts have been adjusted to reflect a six-for-five stock split effected August 31, 1978 and two-for-one stock splits effected June 30, 1979 and July 10, 1981.

Revenue Recognition

Approximately 90% of the Company's operating revenues are received from private sources; the remainder from Medicare and Medicaid. The latter are governmental programs which provide for payments based upon rates set or approved by a governmental agency. These revenues are subject to audit by intermediaries administering these programs. Revenues from these governmental programs are recorded under cost reimbursement principles. Although management believes estimated provisions currently recorded properly reflect these revenues, any differences between final settlement with the intermediary and these estimated provisions are reflected in operating revenues in the year finalized.

Intangible Assets

Costs in excess of net assets of businesses purchased (goodwill) are being accounted for in accordance with APB Opinion No. 17. The writeoff of goodwill in 1979 relates to a facility that was sold.

Investment Tax Credits

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

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Earnings Per Share

Primary earnings per common and common equivalent share have been computed by dividing earnings by the weighted average number of shares of common stock outstanding during the periods.

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 and shares of common stock issuable on conversion of outstanding convertible notes.

The weighted average number of shares outstanding used to compute primary and fully diluted earnings per share have been adjusted to reflect two-for-one stock splits effected July 10, 1981 and June 30, 1979 and a six-for-five stock split effected August 31, 1978. Fully diluted earnings per share for the years ended May 31, 1981, 1980 and 1979 were calculated after giving effect to the elimination of interest expense, less income tax effect, applicable to the convertible notes.

Stock options granted are common stock equivalents but do not have a significant dilutive effect and have not been included in the computation of earnings per share for the periods presented.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 – Summary of Significant Accounting Policies (continued)

Earnings Per Share (continued)

The weighted average number of shares were as follows:

	Year Ended May 31,		
	1981	1980	1979
Primary	<u>7,150,744</u>	<u>6,467,368</u>	<u>6,388,464</u>
Fully diluted	<u>7,777,186</u>	<u>7,099,928</u>	<u>6,618,960</u>

Reclassifications

Certain 1980 and 1979 amounts have been reclassified to conform to the 1981 presentation.

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

In 1972, the Company entered into a joint venture partnership (the "Joint Venture"), named Neuro Affiliates Company, with another corporation for the purpose of operating two hospitals. Under the terms of the joint venture agreement, the Company manages one of the hospitals and its partner manages the other. Each of the partners in the Joint Venture receives a management fee for the hospital it manages and they share equally in the profits or losses of the Joint Venture. The Company consolidates its 50% interest in the assets, liabilities, income and expenses of the Joint Venture due to the significance of the Joint Venture to the Company's total operations. The assets and liabilities of the Joint Venture included in the consolidated balance sheet are as follows:

	May 31,	
	1981	1980
Assets		
Current assets	\$1,219,000	\$ 871,000
Property and equipment (net)	824,000	796,000
Other assets	9,000	3,000
	<u>\$2,052,000</u>	<u>\$1,670,000</u>
Liabilities and partner's equity		
Current liabilities	\$ 564,000	\$ 348,000
Long-term liabilities	846,000	890,000
Partner's equity	642,000	432,000
	<u>\$2,052,000</u>	<u>\$1,670,000</u>

The operating results of the Joint Venture included in the consolidated statement of earnings are as follows:

	Year Ended May 31,		
	1981	1980	1979
Revenues	<u>\$4,731,000</u>	<u>\$3,863,000</u>	<u>\$2,730,000</u>
Costs and expenses			
Operating, general, administrative and marketing	3,258,000	2,627,000	2,085,000
Depreciation and amortization	80,000	67,000	79,000
Interest	83,000	86,000	90,000
	<u>3,421,000</u>	<u>2,800,000</u>	<u>2,254,000</u>
Earnings before taxes on income	<u>\$1,310,000</u>	<u>\$1,063,000</u>	<u>\$ 476,000</u>

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 - Long-Term Debt

Long-term debt consists of the following:

	May 31,	
	1981	1980
7% to 10% notes, payable in monthly installments with maturity dates from 1982 through 1998, collateralized by real and personal property having a net book value of \$4,974,000 and \$2,615,000 as of May 31, 1981 and 1980, respectively	\$2,589,000	\$ 358,000
3% uncollateralized note, payable monthly with maturity in 2002 (Note 10)	347,000	347,000
8% and 8½% unsecured notes, payable in quarterly installments with maturity dates through 1983	32,000	48,000
8% unsecured notes, payable monthly with maturity dates through 1993	597,000	633,000
9% convertible subordinated notes with interest payable semi-annually, maturing in 1988	1,650,000	1,700,000
12% notes, payable in quarterly installments with maturity dates through 1994, collateralized by real property having a net book value of \$917,000 at May 31, 1981	75,000	
Capital lease obligations (Note 5)	3,173,000	3,921,000
Equipment contracts	57,000	33,000
Other	23,000	24,000
	<u>8,543,000</u>	<u>7,089,000</u>
Less amounts due within one year	<u>857,000</u>	<u>389,000</u>
	<u>\$7,686,000</u>	<u>\$6,700,000</u>

As of May 31, 1981 the annual maturities of long-term debt for the next five years amounted to \$857,000 in 1982, \$462,000 in 1983, \$496,000 in 1984, \$450,000 in 1985 and \$469,000 in 1986.

At May 31, 1981, the Company had a \$3,000,000 revolving line of credit with a bank. This line of credit will mature in September 1991, and the balance outstanding as of that date may be converted to a term loan to be amortized over a period of four years. The interest rates during the line and term periods are prime plus ¼% and prime plus ½%, respectively. During the line period, the Company must maintain compensating balances equal to 5% of the commitment plus 10% of the average outstanding balance. During the term period, a 15% compensating balance must be maintained. The loan agreement also requires the Company to maintain net working capital of \$2,500,000 and a tangible net worth of \$7,000,000 increased by 70% of net earnings subsequent to May 31, 1981. No amounts were outstanding under this line of credit at May 31, 1981.

On January 18, 1979, the Company issued \$1,700,000 of 9% convertible notes due 1988 which are subordinate to all bank indebtedness. Under terms of the agreement, the Company is required to establish a mandatory sinking fund equal to 15% of the notes each November 30, beginning in 1983. The notes are redeemable by the Company at any time after November 30, 1981 and are convertible into common stock at any time at a price equal to \$2.6875 per share. Terms of the agreement 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 and not to pay dividends in excess of 33⅓% of cumulative net income subsequent to May 31, 1978. During fiscal 1981 a note amounting to \$50,000 was converted into common stock.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 - Stockholders' Equity

The Company effected a six-for-five stock split on August 31, 1978 and two-for-one stock splits on June 30, 1979 and July 10, 1981. The following stock option data reflects these stock splits.

In November 1973, the Company adopted a non-qualified stock option plan for employees of the Company and members of medical staffs of facilities operated by the Company. The total number of shares of common stock which may be granted under this plan cannot exceed 360,000 shares. 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 that options must be exercised not later than five years from the date of grant.

	Number of Shares	Option Price		Market Price When Exercisable	
		Per Share	Aggregate	Per Share	Aggregate
Options granted in March 1980	<u>140,000</u>	<u>\$5.00</u>	<u>\$700,000</u>	<u>\$5.875</u>	<u>\$823,000</u>
Options outstanding at May 31, 1981	<u>140,000</u>	<u>\$5.00</u>	<u>\$700,000</u>	<u>\$5.875</u>	<u>\$823,000</u>

The options granted in March 1980 were exercisable at that date and must be exercised prior to May 31, 1983. None of the shares granted in March 1980 have been exercised. At May 31, 1981 there were 220,000 shares available for grant.

Note 5 - Lease Commitments

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 and provision for payment of real estate taxes, insurance, maintenance and repair expenses.

Total rental expenses for all operating leases were as follows:

	Year Ended May 31,		
	1981	1980	1979
Minimum rentals	\$417,000	\$234,000	\$162,000
Contingent rentals	16,000	33,000	4,000
Total rentals	<u>\$433,000</u>	<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 fiscal 1981, 1980 and 1979 were \$189,000, \$151,000 and \$222,000, respectively. The net book value of capital leases at May 31, 1981 and 1980 was \$2,531,000 and \$3,100,000, respectively.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 – Lease Commitments (continued)

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, 1981:

	Company	Capital Leases		Operating Leases
		Joint Venture	Total	
1982	\$ 358,000	\$ 122,000	\$ 480,000	\$ 448,000
1983	358,000	122,000	480,000	384,000
1984	358,000	122,000	480,000	358,000
1985	358,000	122,000	480,000	278,000
1986	358,000	122,000	480,000	155,000
Later years	3,824,000	933,000	4,757,000	192,000
Total minimum lease payments	<u>\$5,614,000</u>	<u>\$1,543,000</u>	<u>7,157,000</u>	<u>\$1,815,000</u>
Less amounts representing interest			<u>3,984,000</u>	
Present value of net minimum lease payments			<u>\$3,173,000</u>	

Note 6 – Deferred Compensation Plan

During fiscal year 1980, the Company adopted a deferred compensation plan for its President. The amount of vested unfunded past service cost is \$229,000, which the Company is accruing over a five-year period. The total charge to earnings for fiscal years 1981 and 1980 (which the Company began accruing in February 1980) amounted to \$290,000 and \$38,000 respectively. The Company utilized an 8% discount rate in determining the present value of vested unfunded past service cost.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 — Taxes on Income

Included in other assets are deferred tax charges amounting to \$453,000, and \$353,000 at May 31, 1981 and 1980, respectively.

Federal and state taxes on income consist of the following:

	Year Ended May 31,		
	1981	1980	1979
Currently payable:			
Federal income taxes	\$4,186,000	\$2,212,000	\$1,440,000
State income taxes	850,000	414,000	304,000
	<u>5,036,000</u>	<u>2,626,000</u>	<u>1,744,000</u>
Deferred:			
Federal income taxes	(175,000)	(24,000)	93,000
State income taxes	(14,000)	8,000	31,000
	<u>(189,000)</u>	<u>(16,000)</u>	<u>124,000</u>
	<u>\$4,847,000</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% in 1981 and 1980 and 47.2% in 1979) to earnings before taxes on income is as follows:

	Year Ended May 31,		
	1981	1980	1979
Statutory tax rate applied to pretax earnings ..	\$4,397,000	\$2,408,000	\$1,765,000
Add state income taxes net of federal tax benefit	483,000	214,000	154,000
Deduct investment tax credit	(56,000)	(74,000)	(48,000)
Deduct new jobs credit			(53,000)
Other	23,000	62,000	50,000
	<u>\$4,847,000</u>	<u>\$2,610,000</u>	<u>\$1,868,000</u>

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:

	Year Ended May 31,		
	1981	1980	1979
Capitalized lease costs not deductible for tax purposes	\$ (14,000)	\$ (21,000)	\$ (31,000)
Excess tax over book depreciation	70,000	51,000	30,000
Cash basis accounting and different reporting period for tax purposes by joint venture ..	101,000	5,000	188,000
State income taxes not currently deductible ..	(190,000)	(55,000)	(79,000)
Deferred compensation expense not currently deductible	(159,000)	(20,000)	
Other, net	3,000	24,000	16,000
	<u>\$ (189,000)</u>	<u>\$ (16,000)</u>	<u>\$ 124,000</u>

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 — Property, Plant and Equipment

Depreciation and amortization of property and equipment are 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. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred and major betterments are capitalized. Cost of property disposed of and related accumulated depreciation and amortization are removed from the accounts and gains or losses are reflected in earnings. See Note 9 for facility acquisitions.

<u>Cost</u>	<u>Balance Beginning Of Period</u>	<u>Additions At Cost</u>	<u>Retirements</u>	<u>Other Changes (a)</u>	<u>Balance End Of Period</u>
Year ended May 31, 1981					
Land and improvements . .	\$ 892,000	\$ 427,000			\$ 1,319,000
Buildings and improvements	3,366,000	2,437,000			5,803,000
Furniture and equipment . .	2,893,000	928,000	\$ 98,000		3,725,000
Leasehold improvements . .	558,000	211,000	6,000		763,000
Capitalized building leases	5,477,000	809,000	1,591,000		4,695,000
	<u>\$13,186,000</u>	<u>\$ 4,812,000</u>	<u>\$ 1,693,000</u>		<u>\$16,305,000</u>
Year ended May 31, 1980					
Land and improvements . .	\$ 892,000				\$ 892,000
Buildings and improvements	3,016,000	\$ 374,000	\$ 19,000	\$ (5,000)	3,366,000
Furniture and equipment . .	2,164,000	882,000	161,000	8,000	2,893,000
Leasehold improvements . .	202,000	359,000		(3,000)	558,000
Capitalized building leases	5,477,000				5,477,000
	<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	1,853,000	424,000	\$ 45,000	3,016,000
Furniture and equipment . .	1,714,000	743,000	251,000	(42,000)	2,164,000
Leasehold improvements . .	168,000	37,000		(3,000)	202,000
Capitalized building leases	5,477,000				5,477,000
	<u>\$ 9,372,000</u>	<u>\$ 3,119,000</u>	<u>\$ 740,000</u>	<u>\$ —</u>	<u>\$11,751,000</u>
<u>Accumulated Depreciation and Amortization</u>	<u>Balance Beginning Of Period</u>	<u>Additions Charged To Expense</u>	<u>Retirements</u>	<u>Other Changes</u>	<u>Balance End Of Period</u>
Year ended May 31, 1981					
Buildings and improvements	\$ 547,000	\$ 247,000			\$ 794,000
Furniture and equipment . .	1,081,000	388,000	\$ 42,000		1,427,000
Leasehold improvements . .	116,000	85,000	3,000		198,000
Capitalized building leases	2,377,000	252,000	465,000		2,164,000
	<u>\$ 4,121,000</u>	<u>\$ 972,000</u>	<u>\$ 510,000</u>		<u>\$ 4,583,000</u>

(a) Reclassifications.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 -- Property, Plant and Equipment (continued)

	Balance Beginning Of Period	Additions Charged To Expense	Retirements	Other Changes	Balance End Of Period
Year ended May 31, 1980					
Buildings and improvements	\$ 347,000	\$ 217,000	\$ 17,000		\$ 547,000
Furniture and equipment	879,000	347,000	145,000		1,081,000
Leasehold improvements	86,000	30,000			116,000
Capitalized building leases	2,108,000	269,000			2,377,000
	<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
Capitalized building leases	1,844,000	284,000			2,108,000
	<u>\$ 2,992,000</u>	<u>\$ 741,000</u>	<u>\$ 313,000</u>		<u>\$ 3,420,000</u>

Note 9 -- Acquisitions of Facilities

In February 1981, the Company purchased the land and buildings housing its CareManor facility in Orange, California. The purchase price was \$1,105,000, consisting of approximately \$504,000 in cash and the assumption of an existing mortgage of approximately \$601,000. In April 1981, the Company purchased the land and buildings housing its Bayview Manor facility in Costa Mesa, California. The purchase price was approximately \$905,000, consisting of approximately \$601,000 in cash and notes and mortgages of approximately \$304,000. These properties had been accounted for as capital leases in accordance with provisions of FASB No. 13. The net of the unamortized capital lease costs and related obligations were offset against the purchase prices.

In April 1981, the Company acquired Alcenas Hospital located near Seattle, Washington. The acquisition was financed entirely by new long-term debt of \$1,400,000. The purchase price included the net assets of the facility exclusive of the land and buildings. The Company assumed the lease for the land and buildings. As a result of this transaction, costs in excess of net assets of businesses purchased increased by approximately \$691,000. This amount is being amortized over a period of 25 years.

In April 1981, the Company leased a facility in Brea, California for use as offices and entered into an agreement to purchase the facility in October 1981 for \$400,000.

In May 1981, the Company purchased property adjacent to its alcoholism treatment facility in Fort Worth, Texas for \$215,000, consisting of \$115,000 cash and \$100,000 of new secured debt. The Company intends to use the property to expand its present operations. In July 1981, the Company entered into an agreement to purchase the land and buildings housing its present operations for \$1,350,000.

In May 1981, the Company entered into two joint ventures in Florida for the purpose of owning and operating two alcoholism treatment facilities to be constructed in Jacksonville Beach, and Tampa on properties owned by the joint ventures. The Company has a 50% interest in each joint venture and has agreed to loan for a period not to exceed three years up to \$2,750,000 and \$4,000,000,

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 – Acquisitions of Facilities (continued)

respectively, to the joint ventures for the purpose of constructing, furnishing and equipping such facilities. The Company will manage each facility for a management fee of 6% of the facility's gross revenues, and the Company will share the joint ventures' profits and losses in proportion to its respective joint venture interests.

In June 1981, the Company entered into an agreement to purchase a convalescent hospital in Oklahoma City, Oklahoma for \$1,650,000, payable \$450,000 cash and \$1,200,000 by a ten-year secured note. The Company intends to convert this hospital to an adolescent alcoholism treatment facility. The purchase is contingent upon obtaining the requisite licensing and approvals from the appropriate governmental agencies.

In July 1981, the Company purchased an acute-care hospital in Cincinnati, Ohio for \$4,000,000 cash. The Company had previously received the necessary government approvals to convert the hospital to an alcoholism treatment facility. The Company is currently leasing the hospital back to the seller at a monthly rental of approximately \$73,000 pending construction and occupancy of a new hospital by the seller. The Company anticipates that the hospital will be operational as an alcoholism treatment facility by mid-1982. The Company has agreed in principle to organize a joint venture with members of an insurance group which has agreed in principle to loan the joint venture \$4,000,000 to purchase the facility from the Company. The Company would receive a management fee of 7% of the facility's gross revenues and would share equally in the joint venture's profits and losses.

Note 10 – Subsequent Events

In June 1981, the Company recorded pre-tax income of approximately \$461,000 by eliminating a note payable and related accrued interest due to the Small Business Administration. This loan was made during 1971 to rehabilitate a facility damaged by an earthquake. The Company elected to take this action in reliance upon the opinion of its legal counsel that the statute of limitations expired in June 1981, and that collection of the loan was no longer enforceable.

Note 11 – Quarterly Results (unaudited): Year Ended May 31, 1981 and 1980

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<u>1981</u>				
Revenues	\$11,837,000	\$12,667,000	\$12,988,000	\$15,264,000
Earnings before income taxes	\$ 2,005,000	\$ 2,039,000	\$ 2,165,000	\$ 3,350,000
Federal and state income taxes	1,003,000	1,023,000	1,135,000	1,686,000
Net earnings	\$ 1,002,000	\$ 1,016,000	\$ 1,030,000	\$ 1,664,000
Per share – fully diluted	<u>\$.14</u>	<u>\$.14</u>	<u>\$.13</u>	<u>\$.21</u>
<u>1980</u>				
Revenues	\$ 8,837,000	\$ 9,359,000	\$ 9,903,000	\$11,074,000
Earnings before income taxes	\$ 1,180,000	\$ 1,117,000	\$ 1,200,000	\$ 1,738,000
Federal and state income taxes	590,000	558,000	583,000	879,000
Net earnings	\$ 590,000	\$ 559,000	\$ 617,000	\$ 859,000
Per share – fully diluted	<u>\$.09</u>	<u>\$.08</u>	<u>\$.09</u>	<u>\$.12</u>

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 — 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,	
	1981	1980
Current assets:		
Cash, including time deposits of \$12,000,000, 1981	\$14,135,000	\$ 800,000
Accounts receivable, less allowance for doubtful accounts of \$934,000, 1981, and \$313,000, 1980	6,986,000	4,903,000
Prepaid insurance	525,000	413,000
Prepaid expenses	711,000	610,000
Total current assets	<u>22,357,000</u>	<u>6,726,000</u>
Investment in wholly owned subsidiaries, equity method	16,094,000	11,376,000
Property and equipment, at cost (Notes 3, 5 and 8):		
Land and improvements	712,000	539,000
Buildings and improvements	3,444,000	2,434,000
Furniture and equipment	2,627,000	2,164,000
Leasehold improvements	763,000	558,000
Capital leases	1,070,000	1,591,000
	8,616,000	7,279,000
Less accumulated depreciation and amortization	(1,812,000)	(1,452,000)
Total property and equipment	<u>6,804,000</u>	<u>5,827,000</u>
Other assets:		
Cost in excess of net assets of businesses purchased (Note 1)	382,000	382,000
Notes receivable	328,000	277,000
Other	939,000	550,000
Total other assets	<u>1,649,000</u>	<u>1,209,000</u>
	<u><u>\$46,904,000</u></u>	<u><u>\$25,138,000</u></u>

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 – Financial Statements of Parent Company (continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	May 31,	
	1981	1980
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,236,000	\$ 2,508,000
Accrued salaries and wages	1,412,000	738,000
Payable to third-party intermediaries	429,000	95,000
Long-term debt payable within one year (Note 3)	236,000	216,000
Income taxes payable	2,396,000	659,000
Deferred income taxes	330,000	247,000
Total current liabilities	<u>8,039,000</u>	<u>4,463,000</u>
 Payable to wholly owned subsidiaries	 <u>11,786,000</u>	 <u>8,856,000</u>
 Long-term debt due after one year (Note 3)	 <u>3,599,000</u>	 <u>3,903,000</u>
 Lease Commitments (Note 5)		
 Stockholders' equity (Note 4):		
Common stock, \$.10 par value; Authorized 20,000,000 shares; Issued and outstanding 7,685,972 shares, 1981, and 6,467,368 shares, 1980	769,000	323,000
Additional paid-in capital	13,544,000	2,431,000
Retained earnings	9,167,000	5,162,000
Total stockholders' equity	<u>23,480,000</u>	<u>7,916,000</u>
	<u><u>\$46,904,000</u></u>	<u><u>\$25,138,000</u></u>

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

Note 12 — Financial Statements of Parent Company (continued)

Comprehensive Care Corporation
Statement of Earnings

	Year Ended May 31,		
	1981	1980	1979
Revenue (Note 1)			
Operating	\$34,130,000	\$25,329,000	\$18,397,000
Interest	1,232,000	48,000	27,000
Other	111,000	66,000	69,000
	<u>35,473,000</u>	<u>25,443,000</u>	<u>18,493,000</u>
Costs and expenses			
Operating	20,697,000	16,596,000	11,521,000
General, administrative and marketing	8,985,000	6,954,000	5,227,000
Depreciation and amortization (Note 5)	588,000	479,000	434,000
Interest	348,000	397,000	330,000
	<u>30,598,000</u>	<u>24,426,000</u>	<u>17,512,000</u>
Income before income taxes and equity in net earnings of subsidiaries	4,877,000	1,017,000	981,000
Income taxes	<u>2,473,000</u>	<u>508,000</u>	<u>490,000</u>
Income before equity in net earnings of subsidiaries	2,404,000	511,000	491,000
Equity in net earnings of subsidiaries	<u>2,308,000</u>	<u>2,114,000</u>	<u>1,380,000</u>
Net earnings	<u>\$ 4,712,000</u>	<u>\$ 2,625,000</u>	<u>\$ 1,871,000</u>

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 – Financial Statements of Parent Company (continued)

Comprehensive Care Corporation Statement of Changes in Financial Position

	Year Ended May 31,		
	1981	1980	1979
Financial resources provided by:			
Operations			
Net earnings	\$ 4,712,000	\$ 2,625,000	\$ 1,871,000
Items not requiring (providing) outlay of working capital:			
Depreciation and amortization of property and equipment	586,000	479,000	434,000
Equity in earnings of subsidiaries	(4,688,000)	(4,218,000)	160,000
Deferred income tax	(100,000)	(120,000)	161,000
Write-off of goodwill			135,000
Working capital provided by (required for) operations	530,000	(1,234,000)	2,761,000
Disposal of property and equipment	56,000	11,000	412,000
Increase in amounts due to subsidiaries	2,930,000	3,682,000	91,000
Issuance of common stock	11,559,000		788,000
Additional long-term debt due after one year	404,000		2,525,000
	<u>15,479,000</u>	<u>2,439,000</u>	<u>6,577,000</u>
Financial resources used for:			
Increase in notes receivable	51,000	5,000	272,000
Net transfer of equipment from (to) wholly owned subsidiary	12,000	(23,000)	80,000
Purchase of property and equipment	1,927,000	1,447,000	2,600,000
Elimination of capital lease costs net of capital lease obligations of purchased facilities	115,000		
Reduction of long-term debt due after one year	271,000	192,000	1,095,000
Dividends	707,000	518,000	246,000
Other applications	341,000	69,000	131,000
	<u>3,424,000</u>	<u>2,208,000</u>	<u>4,424,000</u>
Increase in working capital	<u>\$12,055,000</u>	<u>\$ 231,000</u>	<u>\$ 2,153,000</u>
Summary of changes in components of working capital:			
Increase (decrease) in current assets:			
Cash	\$13,335,000	\$ (565,000)	\$ 658,000
Accounts receivable	2,083,000	1,525,000	2,568,000
Prepaid expenses	213,000	155,000	482,000
	<u>15,631,000</u>	<u>1,115,000</u>	<u>3,708,000</u>
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities	1,402,000	989,000	1,306,000
Payable to third-party intermediaries	334,000	(20,000)	57,000
Long-term debt payable within one year	20,000		(155,000)
Income taxes payable	1,820,000	(105,000)	347,000
	<u>3,576,000</u>	<u>864,000</u>	<u>1,555,000</u>
Increase in working capital	<u>\$12,055,000</u>	<u>\$ 251,000</u>	<u>\$ 2,153,000</u>

PART III

Item 9. Directors and Executive Officers of the Registrant.

There is hereby incorporated by reference the information which will appear under the caption "Election of Directors" in a Proxy Statement to be filed with the Securities and Exchange Commission relating to Registrant's Annual Meeting of Stockholders to be held on October 1, 1981.

Item 10. Management Remuneration and Transactions.

There is hereby incorporated by reference the information which will appear under the caption "Remuneration of Officers and Directors" in a Proxy Statement to be filed with the Securities and Exchange Commission relating to Registrant's Annual Meeting of Stockholders to be held on October 1, 1981.

PART IV

Item 11. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Financial Statements

Included in Part II of this report:

Report of Independent Certified Public Accountants

May 31, 1981 and 1980

Consolidated Balance Sheet

Year Ended May 31, 1981, 1980 and 1979

Consolidated Statement of Earnings

Consolidated Statement of Changes in Stockholders' Equity

Consolidated Statement of Changes in Financial Position

Notes to Consolidated Financial Statements

2. Financial Statements Schedules

Included in Part IV of this report:

Report of Independent Certified Public Accountants

Year Ended May 31, 1981, 1980 and 1979

Schedule III — Investments in, Equity in Earnings of, and Dividends Received
from Related Parties

Schedule IV — Indebtedness of and to Related Parties — Not Current

Schedule V — Property, Plant and Equipment (Parent only)

Schedule VI — Accumulated Depreciation and Amortization of Property, Plant
and Equipment (Parent only)

Schedule VIII — Valuation and Qualifying Accounts

Schedule X — Supplementary Statement of Earnings Information

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.

3. Exhibits

The exhibits listed on the accompanying index to exhibits are filed as part of this annual report.

(b) Reports on Form 8-K

None.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of
Comprehensive Care Corporation

In connection with our examination of the consolidated financial statements of Comprehensive Care Corporation and subsidiaries as of May 31, 1981, 1980, and 1979 and for each of the three years then ended, which is referred to in our report dated July 16, 1981, we have also examined the schedules listed in the accompanying index which, when considered in conjunction with the related consolidated financial statements, present fairly in all material respects the information required to be set forth therein.

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

Newport Beach, California
July 16, 1981

SCHEDULE III

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
INVESTMENTS IN, EQUITY IN EARNINGS OF,
AND DIVIDENDS RECEIVED FROM RELATED PARTIES

Year Ended May 31, 1981, 1980 and 1979

Name of issuer and description of investment	Additions				Deductions			
	Balance at beginning of period		Equity taken up in earnings (loss) of affiliates for the period		Distribution of earnings (loss) by affiliates in which earnings (loss) were taken up		Balance at end of period	
	Percent of ownership	Amount	Percent of ownership	Amount	Percent of ownership	Amount	Percent of ownership	Amount
Year Ended May 31, 1981								
NPHS, Inc. investment in joint venture in Neuro Affiliates Company, a partnership	50 %	\$ 433,000		\$1,310,000		\$1,100,000	50 %	\$ 642,000
Year Ended May 31, 1980								
NPHS, Inc. investment in joint venture in Neuro Affiliates Company, a partnership	50 %	\$ 404,000		\$1,063,000		\$1,035,000	50 %	\$ 439,000
Year Ended May 31, 1979								
NPHS, Inc. investment in joint venture in Neuro Affiliates Company, a partnership	50 %	\$ 392,000		\$ 476,000		\$ 464,000	50 %	\$ 404,000

SCHEDULE III (Continued)

Year Ended May 31, 1981

280

SCHEDULE III (Continued)

**COMPREHENSIVE CARE CORPORATION
(PARENT COMPANY)**

**INVESTMENTS IN, EQUITY IN EARNINGS OF,
AND DIVIDENDS RECEIVED FROM RELATED PARTIES**

Year Ended May 31, 1980

Name of issuer and description of investment	Balance at beginning of period		Additions		Deductions		Balance at end of period	
	Number of Shares	Amount	Equity taken up in earnings (loss) of affiliates for the period	Other	Distribution of earnings (loss) by affiliates in which earnings (loss) were taken up	Other	Number of Shares	Amount
Consolidated Subsidiaries								
37 NPHS, Inc. common stock per value \$10 a share	320	\$6,961,000	\$3,733,000				320	\$10,694,000
Terrace 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		<u>\$7,157,000</u>	(24,000)	100			100	(23,000)
			<u>\$4,218,000</u>	<u>\$1,000</u>				<u>\$11,376,000</u>

SCHEDULE III (Continued)

COMPREHENSIVE CARE CORPORATION
(PARENT COMPANY)

INVESTMENTS IN, EQUITY IN EARNINGS OF,
AND DIVIDENDS RECEIVED FROM RELATED PARTIES

Year Ended May 31, 1979

Name of issuer and description of investment	Balance at beginning of period		Equity taken up in earnings (loss) of affiliates for the period	Additions		Distribution of earnings (loss) by affiliates in which earnings (loss) were taken up	Deductions		Balance at end of period
	Number of Shares	Amount		Number of Shares	Amount		Number of Shares	Amount	
Consolidated Subsidiaries									
NPHS, Inc. common stock par value \$10 a share	320	\$4,302,000	\$2,659,000						320 \$ 6,961,000
Terracing 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	3,031,000	154,000						1,000 267,000
		<u>\$7,317,000</u>	<u>\$2,758,000</u>					<u>\$(2,918,000) (a)</u>	<u>\$ 7,157,000</u>

(a) Transfer to parent company.

SCHEDULE IV

COMPREHENSIVE CARE CORPORATION
(PARENT COMPANY)

INDEBTEDNESS OF AND TO RELATED PARTIES - NOT CURRENT

Year Ended May 31, 1981

	Balance at beginning of period	—Indebtedness (of) to—		Balance at end of period
		Additions(a)	Deductions(b)	
Amounts eliminated in consolidation:				
Wholly owned subsidiaries:				
NPHS, Inc.	\$ 8,878,000	\$ 4,373,000	\$ (514,000)	\$12,537,000
Terracina Convalescent Hospital & Home, Inc.	64,000		(64,000)	
Trinity Oaks Hospital, Inc.	(287,000)	408,000	(599,000)	(458,000)
CAREUNIT, Inc.	461,000	149,000	(217,000)	393,000
CareManor Hospital of Virginia, Inc.	(23,000)	(200,000)	(145,000)	(368,000)
CareManor Hospital of Washington, Inc.		(62,000)	(145,000)	(207,000)
Total eliminated in consolidation ...	8,913,000	4,668,000	(1,884,000)	11,897,000
Amount not eliminated in consolida- tion - Neuro Affiliates Company ..	(57,000)		(54,000)	(111,000)
Total indebtedness of and to related parties	<u>\$ 8,856,000</u>	<u>\$ 4,668,000</u>	<u>\$(1,738,000)</u>	<u>\$11,786,000</u>

(a) Pre-tax earnings (loss) of subsidiary

(b) Net cash transfers and reclassifications

SCHEDULE IV (Continued)

**COMPREHENSIVE CARE CORPORATION
(PARENT COMPANY)**

INDEBTEDNESS OF AND TO RELATED PARTIES - NOT CURRENT

Year Ended May 31, 1980

	Balance at beginning of period	—Indebtedness (of) to—		Balance at end of period
		Additions	Deductions	
Amounts eliminated in consolidation:				
Wholly owned subsidiaries:				
NPHS, Inc.	\$ 5,350,000	\$ 3,733,000	\$ (405,000)	\$ 8,678,000
Terracina Convalescent Hospital & Home, Inc.	64,000			64,000
Trinity Oaks Hospital, Inc.	(380,000)	174,000	(61,000)	(267,000)
CAREUNIT, Inc.	140,000	335,000	(14,000)	461,000
CareManor Hospital of Virginia, Inc.		(24,000)	1,000	(23,000)
Total eliminated in consolidation ...	5,174,000	4,218,000	(479,000)	8,913,000
Amount not eliminated in consolida- tion - Neuro Affiliates Company ..			(57,000)	(57,000)
Total indebtedness of and to related parties	<u>\$ 5,174,000</u>	<u>\$ 4,218,000</u>	<u>\$ (536,000)</u>	<u>\$ 8,858,000</u>

(a) Pre-tax earnings (loss) of subsidiary

(b) Net cash transfers

SCHEDULE IV (Continued)

**COMPREHENSIVE CARE CORPORATION
(PARENT COMPANY)**

INDEBTEDNESS OF AND TO RELATED PARTIES — NOT CURRENT

Year Ended May 31, 1979

	Balance at beginning of period	—Indebtedness (of) to—		Balance at end of period
		Additions	Deductions	
Amounts eliminated in consolidation:				
Wholly owned subsidiaries:				
NPHS, Inc.	\$ 3,183,000	\$ 2,659,000	\$ (492,000)	\$ 5,350,000
Terracina Convalescent Hospital & Home, Inc.	64,000			64,000
Trinity Oaks Hospital, Inc.	(50,000)	(55,000)	(275,000)	(380,000)
CAREUNIT, Inc.	1,887,000	154,000	(1,901,000)	140,000
Neuro Affiliates Company (50% interest)	(9,000)		9,000	
Total eliminated in consolidation ...	5,075,000	2,758,000	(2,659,000)	5,174,000
Amount not eliminated in consolida- tion — Neuro Affiliates Company ..	8,000		(8,000)	
Total indebtedness of and to related parties	<u>\$ 5,083,000</u>	<u>\$ 2,758,000</u>	<u>\$ (2,667,000)</u>	<u>\$ 5,174,000</u>
(a) Pre-tax earnings (loss) of subsidiary				
(b) Net cash transfers				

SCHEDULE V

**COMPREHENSIVE CARE CORPORATION
(PARENT COMPANY)**

PROPERTY, PLANT AND EQUIPMENT

Year Ended May 31, 1981, 1980 and 1979

<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes</u>	<u>Balance at End of Period</u>
Year ended May 31, 1981					
Land and improvements	\$ 532,000	\$ 180,000			\$ 712,000
Buildings and improvements	2,434,000	1,010,000			3,444,000
Furniture and equipment	2,164,000	528,000	\$ 88,000	\$ 25,000 (a)	2,627,000
Leasehold improvements	558,000	211,000	6,000		763,000
Capitalized building leases	1,591,000		521,000		1,070,000
	<u>\$7,279,000</u>	<u>\$1,927,000</u>	<u>\$ 615,000</u>	<u>\$ 25,000</u>	<u>\$8,616,000</u>
Year ended May 31, 1980					
Land and improvements	\$ 532,000				\$ 532,000
Buildings and improvements	2,138,000	\$ 301,000		\$ (5,000)(a)	2,434,000
Furniture and equipment	1,548,000	787,000	\$ 154,000	(15,000)(a)	2,164,000
Leasehold improvements	202,000	358,000		(3,000)(b)	558,000
Capitalized building leases	1,591,000				1,591,000
	<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 (a)	2,138,000
Furniture and equipment	1,021,000	613,000	229,000	141,000 (b)	1,548,000
Leasehold improvements	168,000	91,000		(57,000)(a)	202,000
Capitalized building 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>

(a) Reclassifications.

(b) Net transfers to/from wholly owned facilities.

SCHEDULE VI

**COMPREHENSIVE CARE CORPORATION
(PARENT COMPANY)**

**ACCUMULATED DEPRECIATION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT**

Year Ended May 31, 1981, 1980 and 1979

<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Sales, Retirements and Abandonments</u>	<u>Other Changes</u>	<u>Balance at End of Period</u>
Parent Company only:					
Year ended May 31, 1981					
Buildings and improvements	\$ 285,000	\$ 127,000			\$ 412,000
Furniture and equipment	645,000	296,000	\$ 35,000	\$ 12,000 (a)	718,000
Leasehold improvements	116,000	85,000	3,000		198,000
Capitalized building leases	406,000	78,000	200,000		284,000
	<u>\$1,452,000</u>	<u>\$ 586,000</u>	<u>\$ 238,000</u>	<u>\$ 12,000</u>	<u>\$1,812,000</u>
Year ended May 31, 1980					
Buildings and improvements	\$ 186,000	\$ 99,000			\$ 285,000
Furniture and equipment	517,000	271,000	\$ 143,000		645,000
Leasehold improvements	86,000	30,000			116,000
Capitalized building leases	327,000	79,000			406,000
	<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	\$ 83,000	\$ 97,000		\$ 186,000
Furniture and equipment	410,000	216,000	170,000	\$ 61,000 (a)	517,000
Leasehold improvements	31,000	55,000			86,000
Capitalized building leases	247,000	80,000			327,000
	<u>\$ 888,000</u>	<u>\$ 434,000</u>	<u>\$ 267,000</u>	<u>\$ 61,000</u>	<u>\$1,116,000</u>

(a) Net transfers from wholly owned subsidiaries.

SCHEDULE VIII

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

Year Ended May 31, 1981, 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	
Allowance for doubtful accounts (deducted from accounts receivable in the balance sheet):					
Company:					
Year ended May 31, 1981	\$ 313,000	\$1,225,000	\$ 108,000(b)	\$ 712,000	\$ 934,000
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, 1981	\$ 512,000	\$2,028,000	\$ 100,000(c) 282,000(b)	\$1,422,000	\$1,480,000
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

SCHEDULE X

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY STATEMENT OF EARNINGS INFORMATION

	Year Ended May 31,					
	Company			Consolidated		
	1981	1980	1979	1981	1980	1979
Advertising Costs	\$2,808,000	\$2,184,000	\$1,322,000	\$3,405,000	\$2,648,000	\$1,910,000

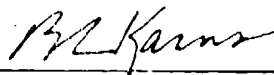
All other categories are omitted because they are not required.

SIGNATURES

Pursuant to the requirements of Sections 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, on July 22, 1981.



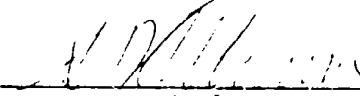
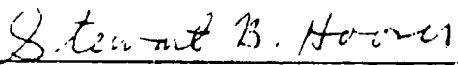
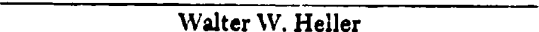

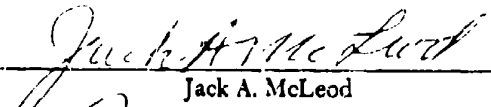
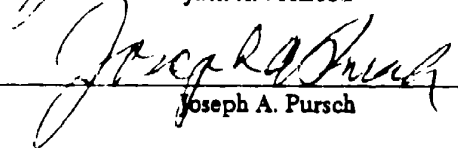
COMPREHENSIVE CARE CORPORATION

By



B. Lee Karns
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates so indicated.

Signature	Title	Date
 B. Lee Karns	President (Chief Executive Officer)	July 22, 1981
 W. James Nicol	Vice President - Finance and Administration, Treasurer and Secretary (Chief Financial Officer)	July 22, 1981
 Stephen R. Munroe	Controller (Chief Accounting Officer)	July 22, 1981
 Stewart B. Hoover	Director	July 22, 1981
 Walter W. Heller	Director	July , 1981
 George J. Lyon	Director	July , 1981
 Jack A. McLeod	Director	July 22, 1981
 Joseph A. Pursch	Director	July 22, 1981

INDEX TO EXHIBITS

ITEM 11(a) 3

Page
Sequentially
Numbered

2.1	Restated Articles of Incorporation of Registrant as presently in effect(1)	
2.2	By-Laws of Registrant as presently in effect. (Filed herewith)	55
4.1	Purchase Agreement dated January 18, 1979 between Registrant and purchasers of 9% Convertible Subordinated Notes due November 1988(2)	
4.2	Agreement pursuant to Instruction No. 4(b) to Exhibits - Regulation S-K. (Filed herewith)	79
10.1	Deferred Compensation Agreement dated June 27, 1979 between Registrant and B. Lee Karn.(3)	
10.2	Letter of Understanding dated April 21, 1980 addressed by the Company to Joseph C. Fursch, M.D. (re Consulting Services)(1)	
10.3	Deferred Compensation Agreement dated April 8, 1976 between Registrant and Robert L. Kasselmann(1)	
10.4	Death Benefit Agreement dated October 8, 1974, as amended, between Registrant and W. James Nicol(1)	
10.5	Death Benefit Agreement dated October 9, 1974, as amended, between Registrant and Edward A. Johnson(1)	
10.6	Deferred Benefit Agreement dated June 1, 1978, as amended, between Registrant and Richard A. Santoni(1)	
10.7	1973 Nonqualified Stock Option Plan of Registrant(1)	
10.8	Form of Nonqualified Stock Option Agreement(1)	
10.9	Stock Bonus Plan of Registrant, including pamphlet describing such Plan(4)	
10.10	Description of Registrant's Bonus Plan for officers and directors of operations(1)	
10.11	Standard Lease dated April 28, 1976 amended June 28, 1976 between The Irvine Company as Lessor and Registrant as Lessee (re Executive Offices at Newport Beach, California)(5)	
10.12	Lease dated August 27, 1979 between DePaul Medical Office Building Management Corporation as Lessor and Registrant as Lessee (re regional office in Bridgeton, Missouri)(3)	
10.13	Lease dated November 19, 1965 between North Brea Company as Lessor and Gilbert C. Nee and Margaret Y. Nee as Lessees; Amendment to such Lease dated January 28, 1968; Second Amendment to such Lease dated March 11, 1968 (all of which have been assigned to Registrant as Lessee under Assignment dated June 20, 1969 and relate to the Brea Hospital)(6)	

- 10.14 Lease dated January 15, 1970 between SoCal Projects, Inc. as Lessor and Registrant as Lessee; Amendment to such Lease dated November 25, 1970; Second Amendment to such Lease dated April 20, 1971; and Third Amendment to such Lease dated March 10, 1972 (re Woodview-Cala-bassas Hospital)(1)
- 10.15 Lease dated September 23, 1975 between Bernard Hambleton and Marion Hambleton as Lessors and Alcoholism Center Associates, Inc. as Lessee (re Alcenass Hospital)(1)
- 10.16 Woodview Lease dated November 1, 1972 between American Psychiatric Hospitals of California, Inc. as Lessor and Neuro Affiliates Company as Lessee (re Crossroads Hospital)(7)
- 10.17 Lease dated November 3, 1971 between California Medical Properties, Ltd. as Lessor and Registrant as Lessee (re Trinity Oaks Hospital)(1)
- 10.18 Joint Venture Agreement dated November 1, 1972 (re Neuro Affiliates)(7)
- 10.19 Amendment to Joint Venture Agreement dated March 1, 1973 between American Psychiatric Hospitals of California, Inc. and NPHS, Inc., a wholly-owned subsidiary of Registrant (re Neuro Affiliates Company)(1)
- 10.20 Contract to Purchase dated as of November 1, 1980 between Registrant and St. Francis-St. George Hospital, Inc. and Addendum thereto dated December 15, 1980 (re St. George Hospital)(8)
- 10.21 Lease Agreement dated as of July 2, 1981 between Registrant as Lessor and St. Francis-St. George Hospital, Inc. as Lessee(8)
- 10.22 Joint Venture Agreement dated May 29, 1981 among Registrant, Wornlar, Inc. and Carter La Prade and James C. Gibbons as Co-Trustees of the Trust for the Benefit of Children and Grandchildren of Burch Williams (re Caremanor of Northeast Florida)(8)
- 10.23 Construction Loan Agreement dated May 29, 1981 between Registrant and Caremanor of Northeast Florida(8)
- 10.24 Joint Venture Agreement dated May 29, 1981 among Registrant, Allow, Inc. and Carter La Prade and James C. Gibbons as Co-Trustees of the Trust for the Benefit of Children and Grandchildren of Burch Williams (re Caremanor of Tampa). (Filed herewith)
- 10.25 Purchase Agreement dated March 30, 1981 between Caremanor Hospital of Washington, Inc. and Alcoholism Center Associates, Inc., James R. Milam and Dorris M. Hutchison (re purchase of business and assets of Alcenass Hospital). (Filed herewith)
- 10.26 Guarantee Agreement dated March 30, 1981 between Registrant, Caremanor Hospital of Washington, Inc., Alcoholism Center Associates, Inc., James R. Milam and Dorris M. Hutchison (re purchase of business and assets of Alcenass Hospital). (Filed herewith)

80

115

155

(ii)

		Page Sequentially Numbered
10.27	Escrow Agreement and Escrow Instructions dated January 15, 1981 between Registrant, Genes, Ltd. and Patricia Lapan (re purchase of Caremanor Hospital of Orange). (Filed herewith)	167
10.28	Escrow Instructions dated July 16, 1981 between Registrant and West Magnolia Associates (re purchase of Trinity Oaks Hospital). (Filed herewith)	170
10.29	Regular form of CareUnit Contract(1)	
10.30	Regular form of StressCenter Contract(1)	
11	Computation of Registrant's Earnings Per Share for each period reflected in the Consolidated Statement of Earnings. (Filed herewith)	175
22	List of Registrant's subsidiaries. (Filed herewith)	176

(1)	Filed as an exhibit to Registrant's Form S-1 Registration Statement No. 2-69263.
(2)	Filed as an exhibit to Registrant's Form 10-Q for the quarter ended February 28, 1979.
(3)	Filed as an exhibit to Registrant's Form 10-K for the fiscal year ended May 31, 1980.
(4)	Filed as an exhibit to Registrant's Form S-3 Registration Statement No. 2-62410.
(5)	Filed as an exhibit to Registrant's Form 10-K for the fiscal year ended May 31, 1977.
(6)	Filed as an exhibit to Registrant's Form S-1 Registration Statement No. 2-35139.
(7)	Filed as an exhibit to Registrant's Form 8-K for November 1972.
(8)	Filed as an exhibit to Registrant's Form 8-K dated July 1, 1981.

All such exhibits are incorporated herein by this reference.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

CALCULATION OF PRIMARY EARNINGS PER SHARE

	Year Ended May 31				
	1981	1980	1979	1978	1977
Net earnings applicable to common stock (a) ..	<u>\$4,712,000</u>	<u>\$2,025,000</u>	<u>\$1,871,000</u>	<u>\$ 903,000</u>	<u>\$ 831,000</u>
Average number of shares of common stock and common stock equivalents outstanding:					
Average number of shares of common stock outstanding	7,150,744	6,467,368	6,388,464	6,227,376	5,236,512
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>7,150,744</u>	<u>6,467,368</u>	<u>6,388,464</u>	<u>6,227,376</u>	<u>5,236,512</u>
Primary earnings per share	<u>\$.66</u>	<u>\$.41</u>	<u>\$.29</u>	<u>\$.15</u>	<u>\$.16</u>

CALCULATION OF FULLY DILUTED EARNINGS PER SHARE

	Year Ended May 31				
	1981	1980	1979	1978	1977
Net earnings applicable to common stock on a fully diluted basis (c)	<u>\$4,787,000</u>	<u>\$2,703,000</u>	<u>\$1,900,000</u>	<u>\$ 903,000</u>	<u>\$ 831,000</u>
Average number of shares outstanding on a fully diluted basis:					
Shares used in calculating primary earnings per share	7,150,744	6,467,368	6,388,464	6,227,376	5,236,512
Additional average number of common stock outstanding assuming conversion of new preferred stock					854,002
Additional average number of common stock outstanding assuming conversion of 9% convertible subordinated debentures	626,442	632,558	230,498		
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>7,777,186</u>	<u>7,099,926</u>	<u>6,618,960</u>	<u>6,227,376</u>	<u>6,090,514</u>
Fully diluted earnings per share	<u>\$.62</u>	<u>\$.38</u>	<u>\$.29</u>	<u>\$.15</u>	<u>\$.14</u>
(a) Net earnings per Selected Financial Data ..	<u>\$4,712,000</u>	<u>\$2,625,000</u>	<u>\$1,871,000</u>	<u>\$ 903,000</u>	<u>\$ 831,000</u>
(b) The dilutive effect of stock options and warrants was less than 3% for 1977 through 1981; therefore, this effect was not shown above.					
(c) Net earnings per Selected Financial Data ..	<u>\$4,712,000</u>	<u>\$2,625,000</u>	<u>\$1,871,000</u>		
Add interest expense attributable to 9% convertible subordinated debentures, net of applicable income taxes	75,000	78,000	29,000		
	<u>\$4,787,000</u>	<u>\$2,703,000</u>	<u>\$1,900,000</u>		

LIST OF REGISTRANT'S SUBSIDIARIES

<u>Company</u>	<u>State of Incorporation</u>	<u>Names Under Which Doing Business</u>
NPHS, Inc.	California	Brea Hospital; Tustin Manor; Neuro Affiliates
Trinity Oaks Hospital, Inc.	Texas	Same
CAREUNIT, Inc.	California	Same
Caremanor Hospital of Virginia, Inc.	California	Shenandoah Lodge
Caremanor Hospital of Washington, Inc.	Washington	Alcenas Hospital
Terracina Convalescent Hospital & Home, Inc.	California	Same
Neuro Affiliates Company	California(1)*	Woodview-Calabasas Hospital; Crossroads Hospital
Caremanor of Northeast Florida	Florida(2)*	Same
Caremanor of Tampa	Florida(3)*	Same

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

(2) Joint Venture with Womlar, Inc. and Carter La Prade and James C. Gibbons as Co-Trustees of the Trust for the Benefit of the Children and Grandchildren of Burch Williams.

(3) Joint Venture with Allow, Inc. and Carter La Prade and James C. Gibbons as Co-Trustees of the Trust for the Benefit of the Children and Grandchildren of Burch Williams.

* Registrant has a 50% interest in each joint venture.

Exhibit 22

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

AUG 1981