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, 1983 | 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)

95-2594724
(I.R.S. Employer Identification No.)

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

92660
(Zip code)

93

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 non-affiliates of Registrant at July 18, 1983 was $346,791,470

At July 18, 1983, Registrant had 11,370,212 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 September 29, 1983

# 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"). These services are provided under contractual agreements with independent general hospitals or directly at specialty hospitals owned and/or operated by Registrant. It is the largest private provider of hospital-based alcoholism treatment services in the United States. During fiscal 1983 alcoholism and psychiatric treatment services accounted for approximately 92% of Registrant's total revenues. The tables below summarize relevant information regarding Registrant's operation.

### Facility Inventory

| | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|
| Psychiatric Hospitals | 2 | 2 | 2 | 2 | 2 |
| Alcoholism Treatment Facilities | 4 | 5 | 6 | 6 | 9 |
| Long-Term Care Facilities | 3 | 3 | 3 | 3 | 3 |
| Adult CareUnits | 43 | 52 | 60 | 73 | 73 |
| Adolescent CareUnits | 1 | 1 | 2 | 12 | 11 |
| StressCenters | 2 | 3 | 4 | 7 | 10 |
| Publications | 1 | 1 | 1 | 1 | 1 |
| | 56 | 67 | 78 | 104 | 109 |

### Hospital Operations

| Facility | Date Acquired | Licensed Capacity | Patient Days 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|
| Brea Neuropsychiatric Center | 1969 | 142 | 29,049 | 31,824 | 33,495 | 40,427 | 40,100 |
| Woodview-Calabasas Hospital | 1970 | 117 | 20,068 | 23,323 | 25,612 | 23,854 | 25,554 |
| CareUnit Hosp. Dallas/Ft. Worth | 1971 | 43 | 4,680 | 6,890 | 8,384 | 10,917 | 12,878 |
| Crossroads Hospital | 1972 | 33 | 8,369 | 10,757 | 11,135 | 11,295 | 11,551 |
| CareUnit Hosp. of Orange | 1976 | 94 | 18,785 | 21,481 | 27,109 | 31,098 | 30,426 |
| CareUnit Hosp. of Los Angeles | 1978 | 104 | 8,940 | 12,587 | 15,043 | 14,669 | 17,112 |
| CareUnit Hosp. of Kirkland (1) | 1981 | 82 | 13,793 | 25,505 | 26,606 | 25,391 | 25,818 |
| Shenandoah Lodge (2) | 1979 | 24 | — | 3,980 | 4,251 | 3,518 | — |
| CareUnit of Jacksonville Beach | 1982 | 84 | — | — | — | 35 | 12,416 |
| CareUnit Hosp. of Cincinnati (3) | 1982 | 84 | — | — | — | — | 27,598 |
| CareUnit Hosp. of St. Louis (4) | 1983 | 260 | — | — | — | — | 9,784 |
| Starting Point, Oak Avenue (5) | 1983 | 68 | — | — | — | — | 1,491 |
| Patient Days Served During Period | | | 103,684 | 136,347 | 151,635 | 161,204 | 214,728 |
| Available Beds at End of Period (6) | | | 434 | 456 | 560 | 659 | 1,015 |
| Average Occupancy Rate for Period | | | 62.7% | 74.1% | 81.2% | 76.0% | 70.1% (7) |

(1) Managed from 1978 until purchased by Registrant in April 1981

(2) Closed in February 1982

(3) Opened in June 1, 1982

(4) Acquired January, 1983

(5) Acquired March, 1983. Registrant's Starting Point subsidiary also owns a 25-bed alcoholism treatment facility in Sacramento which has been temporarily closed. Registrant intends to refurbish this facility and to reopen it as an adolescent treatment center.

(6) 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 are defined as the number of beds which are available for use at any given time.

(7) The decrease in average occupancy rate during this period was due to the start-up of the Jacksonville Beach facility, the acquisition of CareUnit Hospital of St. Louis with its high complement of unused beds (due to the discontinuance of medical-surgical services) and the expansion of Brea Neuropsychiatric Center.

## Contract Operations

| | 1979 | 1980 | 1981 | 1982 | 1983 | |
|---|---|---|---|---|---|---|
| Patient Days Served During Period | 234,420 | 316,551 | 396,714 | 474,964 | 494,740 | |
| Facilities—Beginning of Period | 30 | 46 | 56 | 66 | 92 | |
| Additions | 20 | 14 | 15 | 39 | 25 | |
| Deletions | 4 | 4 | 5 | 13 | 23 | |
| Facilities—End of Period (1) | 46 | 56 | 66 | 92 | 94 | (2) |
| Average Occupied Beds Per Contract | 17.9 | 17.4 | 17.8 | 16.8 | 14.6 | (3) |
| Available Beds at End of Period | 1,117 | 1,394 | 1,543 | 2,113 | 2,168 | |
| Average Occupancy Rate for Period | 75.1% | 71.2% | 74.2% | 72.5% | 64.7% | (3) |

(1) Excludes Contracts executed as of the end of the period but not implemented pending governmental approval or which are not operational on such date.

(2) During this period Registrant opened 21 Contracts and closed 23 Contracts. Four Contracts were added with the purchase of Starting Point, Inc. Of the 23 Contracts closed, three Contracts operated in a St. Louis, Missouri hospital and one Contract operated in a Cincinnati, Ohio hospital were closed when Registrant purchased the hospitals and the balance were either terminated by the contracting hospitals (ten Contracts) or by Registrant because of doubtful profit potential (seven Contracts) or transferred to other hospitals within the same community (two Contracts).

(3) Average occupancy rate for period and average occupied beds per Contract decreased because the decline in occupancy caused by the transfer of four significant Contracts to owned-hospital operations, the termination of Contracts by contracting hospitals (two of which were significant) and the termination of marginal Contracts by Registrant was not offset by the occupancy of Contracts opened during the period.

## Alcoholism Treatment Services

Registrant provides alcoholism treatment services in nine facilities operated by it and 78 independent general hospitals which have entered into 84 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 10-week period following discharge during which the patient and family memb[illegible] urn to the hospital once a week for outpatient counseling sessions.

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 manager, 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 ongoing 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 notice. A significant number of contracts are terminable on 90 days notice.

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 nonpayment 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 a joint venture and 10 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 manager, a psychologist, an occupational therapist, a social worker and appropriate supporting counselors

## Other Health Care Services and Supporting Activities

**New Services.** The Registrant has a 50% interest in a corporation formed to provide rehabilitation therapy services to accident injury and stroke victims The name of this new company is RehabCare Corporation These services will be offered as contract services to community hospitals in a fashion similar to CareUnit and StressCenter programs. The first RehabCare Unit is scheduled to open in August, 1983

The Registrant has also begun marketing a Comprehensive Eating Disorders Unit This inpatient program will treat those suffering from anorexia, bulimia and obesity Anorexia and bulimia are characterized by abnormal lack of appetite, obsessive concerns with weight and a distorted self-concept The Registrant has operated an eating disorders unit in one of its owned facilities for the past year and has signed a contract to open a unit in a community hospital

**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, 1983, the average occupancy rate for these three facilities, based on the number of available beds, was 96%. These facilities accounted for approximately 3% of Registrant's total revenues in fiscal 1983. 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 life-style management subjects such as weight and smoking control. The primary purpose of these activities is to support 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. 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 3% of Registrant's total revenues in fiscal 1983.

**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 1983, Registrant spent $6,217,000 (7% of revenues) for all advertising. Registrant's advertising program includes a series of television, radio and newspaper messages 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 manager whose role 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 manager is assisted on an ongoing basis by 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 CareInstitute conferences which are alcoholism educational programs designed for health professionals. Registrant also offers Employee Assistance Programs as a contract service to businesses. The Employee Assistance Programs are aimed at employees who exhibit deteriorating job performance related to alcoholism, mental illness or other personal problems.

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 dedicate a minimum of 15 beds for use in a Program and have a satisfactory reputation and financial condition. 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. The Registrant formed an 80% owned Canadian subsidiary to market CareUnit and StressCenter programs in Canada. This subsidiary, headquartered in Edmonton, Alberta, presently has a 2-person market development staff.

## 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 nonprofit 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 1983, approximately 97% 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. 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. The CON application process ordinarily takes from six to 18 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, 1983, Registrant had entered into 23 CareUnit contracts, 11 StressCenter contracts, one Eating Disorders Unit contract and one RehabCare Unit contract with general hospitals, 18 of which are awaiting government approval. In addition, the Registrant's Canadian subsidiary has eight CareUnit contracts awaiting government approval.

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 ensure continuous compliance with all licensing requirements by health 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. 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 such accreditation.

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. The Registrant anticipates that the Tax Equity and Fiscal Responsibility Act of 1982 and the 1983 amendments to the Social Security Act relating to Medicare services will not have a material adverse effect on business.

## 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 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, 1983 Registrant employed approximately 140 persons in its corporate and administrative offices, 1,420 persons in the hospitals and long-term health care facilities operated by it and 420 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.

**Item 2. Properties.**

The following table sets forth certain information regarding the properties owned or leased by Registrant at May 31, 1983:

| 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 |
| CareUnit Hospital (4) Kirkland, Washington | 82 | Leased | 1981 | 2035 | 12,000(5) |
| CareUnit Hospital (6) Fort Worth, Texas | 43 | Owned | 1981 | — | — |
| CareUnit Hospital (7) Orange, California | 94 | Owned | 1981 | — | — |
| CareUnit Hospital Los Angeles, California | 104 | Owned | 1978 | — | — |
| CareUnit Facility (8) Jacksonville Beach, Florida | 84 | Owned | 1982 | — | — |
| CareUnit Hospital (9) Cincinnati, Ohio | 84 | Owned | 1982 | — | — |
| CareUnit Hospital St Louis, Missouri | 260 | Owned | 1983 | — | — |
| Starting Point Oak Avenue Sacramento, California (10) | 68 | Owned | 1983 | — | — |
| Psychiatric Treatment Facilities | | | | | |
| Brea Neuropsychiatric Center (11) Brea California | 142 | Owned | 1982 | — | — |
| Woodview-Calabasas Hospital (12) Calabasas, California | 117 | Leased | 1970 | 1996 | 19,227(13) (14) |
| Other Health Care Facilities | | | | | |
| Bayview Convalescent Hospital Costa Mesa California (Extended care facility) | 59 | Owned | 1969 | - | — |
| Tustin Manor Tustin California (Intermediate care facility) | 99 | Leased | 1970 | 1995 | 7,754(13) |
| Bayview Manor (15) Costa Mesa California (Residential care facility) | 72 | Owned | 1981 | — | — |
| | Square Feet | | | | |
| Administrative facilities | | | | | |
| Corporate Headquarters Newport Beach California | 20 444 | Leased | 1976 | 1996 | 19 250 |
| Regional Headquarters Bridgeton Missouri | 18 759 | Leased | 1979 | 1989 | 15 835 |
| Publications Division Minneapolis Minnesota | 8 000 | Leased | 1981 | 1986 | 3 715 |

(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 a 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.
(5) Subject to increase every three years based upon increases in the Consumer Price Index, not to exceed 10%.
(6) Leased by Registrant from 1971 to 1982.
(7) Leased by Registrant from 1976 to 1981.
(8) Owned by a joint venture and managed by Registrant.
(9) Acquired by Registrant July 2, 1981, but leased back to seller through May of 1982. Leased to joint venture from June 1982 to June 1983. Purchased from Registrant in June 1983 by the joint venture.
(10) Registrant's Starting Point subsidiary also owns a 25-bed alcoholism treatment facility in Sacramento which has been temporarily closed. Registrant intends to refurbish this facility and to reopen it as an adolescent treatment center.
(11) Leased by Registrant from 1969 to 1982.
(12) Leased by Registrant and managed by the Registrant's partner in a joint venture.
(13) Subject to increase every five years based upon the Consumer Price Index.
(14) 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 in June 1981.
(15) Leased by Registrant from 1971 to 1981.

**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, 1983.

# Part II

## Item 5. Market for 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 a two-for-one stock split paid on July 21, 1981, 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.

| Fiscal Year | | Bid Price High | Bid Price Low |
|---|---|---|---|
| 1982 | First Quarter | 19¾ | 14⅜ |
| | Second Quarter | 19⅞ | 12⅝ |
| | Third Quarter | 19⅜ | 15⅞ |
| | Fourth Quarter | 17⅛ | 10⅜ |
| 1983 | First Quarter | 14⅜ | 9⅞ |
| | Second Quarter | 20 | 13¾ |
| | Third Quarter | 26½ | 17½ |
| | Fourth Quarter | 37 | 24¼ |

(b) The approximate number of holders of Common Stock of Registrant as of June 30, 1983 was 6,000.

(c) Registrant paid $.04 and $.06 per share each cash dividends on a quarterly basis during the fiscal years ended May 31, 1982 and May 31, 1983, respectively, or an aggregate of $.16 and $.24 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. On June 24, 1983, Registrant's Board of Directors declared a quarterly dividend of $.08 per share payable August 18, 1983, to shareholders of record August 1, 1983.

## Item 6. Selected Financial Data.

| | Year Ended May 31, 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|
| | (Dollars in thousands, except per share data) | | | | |
| Income Statement Data | | | | | |
| Revenues | | | | | |
| Operating | $28 726 | $38,979 | $51,351 | $68,709 | $86,126 |
| Interest | 37 | 67 | 1,232 | 4,610 | 2,845 |
| Other | 118 | 127 | 173 | 166 | 412 |
| | 28,881 | 39 173 | 52,756 | 73,485 | 89,383 |
| Costs and Expenses | | | | | |
| Operating | 17 005 | 23 625 | 29 546 | 39 349 | 46,619 |
| General, administrative and marketing | 6 849 | 9,251 | 12,227 | 16 930 | 18,574 |
| Depreciation and amortization | 741 | 863 | 977 | 1,448 | 1,952 |
| Interest | 547 | 613 | 617 | 603 | 660 |
| | 25 142 | 34 352 | 43,367 | 58,330 | 67,805 |
| Earnings before taxes on income and extraordinary item | 3 739 | 4,821 | 9 389 | 15,155 | 21,578 |
| Net earnings (1) | 1 871 | 2,418 | 4,627 | 7,586 | 10,767 |
| Earnings per common share (1) | | | | | |
| Primary | .29 | 37 | 65 | 81 | 1 07 |
| Fully diluted | 29 | 35 | 60 | 80 | 1 07 |
| Cash dividends per share | 035 | 08 | 10 | 16 | 24 |

(1) Excludes extraordinary gain of $231000 ($.02 per share) recorded in fiscal 1982

| | At May 31 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Balance Sheet Data | | | | | |
| Working capital | $ 3 321 | $ 4 076 | $16,828 | $30,934 | $ 59,691 |
| Total assets | 17 419 | 20 291 | 41 116 | 69 073 | 119,491 |
| Long term debt | 7 052 | 6 700 | 7 686 | 5,085 | 6,062 |
| Stockholders equity | 5 809 | 7 709 | 23 188 | 53 561 | 100,489 |

## 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 | |
| | 1981 | 1982 | 1983 | 1981-82 | 1982-83 |
| Operating revenue | 97.3% | 93.5% | 95.3% | 33.8% | 25.3% |
| Interest income | 2.3 | 6.3 | 3.2 | 274.2 | (38.3) |
| Other revenue | .4 | .2 | .5 | (4.0) | 148.2 |
| Total Revenues | 100.0 | 100.0 | 100.0 | 39.3 | 21.6 |
| Operating expense | 55.9 | 53.6 | 52.2 | 33.2 | 18.5 |
| General, administrative and marketing | 23.2 | 23.0 | 20.8 | 38.5 | 9.7 |
| Depreciation and amortization | 1.9 | 2.0 | 2.2 | 48.2 | 34.8 |
| Interest | 1.2 | .8 | .7 | (2.3) | 9.5 |
| Earnings before taxes on income | 17.8 | 20.6 | 24.1 | 61.4 | 42.4 |
| Taxes on income | 9.0 | 10.3 | 12.1 | 58.9 | 42.8 |
| Earnings before extraordinary item | 8.8 | 10.3 | 12.0 | 64.0 | 41.9 |

### 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 improved pre-tax 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. Interest income, resulting from Registrant's three recent public offerings, has been a significant factor in revenue growth. 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 freestanding 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 operating revenues of Registrant's freestanding hospitals in fiscal 1983 increased from approximately 54% in fiscal 1982 to 58%. Contract operations decreased from 41% to 37% for the same periods. Registrant's 142-bed psychiatric hospital in Brea, California, is a significant contributor to total revenues and net income.

Operating revenue for fiscal 1983 and fiscal 1982 increased 25.3% and 33.8%, respectively. For fiscal 1983, approximately (i) 40% was due to price increases at existing freestanding facilities and Contracts, (ii) 30% was due to revenues generated by the operation of new freestanding facilities and (iii) 30% was due to increased utilization of the Company's existing freestanding facilities and Contracts. Revenues from the operation of newly-opened Contract units contributed to the increase in total operating revenues but such increase was offset by the loss of revenue from Contract units closed during these periods. Of the increase for fiscal 1982 approximately (i) 25% was due to increased utilization of Registrant's existing freestanding facilities and contracts (ii) 30% from price increases and (iii) 45% was due to revenues generated by the operation of a new freestanding facility and new Contract units.

Registrant's pre-tax margin rose from 17.8% in fiscal 1981 to 20.6% in fiscal 1982 and to 24.1% in fiscal 1983. A significant factor in the increase for fiscal 1982 was the interest income resulting from investment of the proceeds of Registrant's 1980 and 1981 public offerings. Operating margins for the same periods were 16.2%, 15.3% and 21.6% respectively. Although many factors contributed to the decline in fiscal 1982, including the general economy of the country, primary factors include the substantially greater number of Contract Units opened during fiscal 1982 (39 vs. 15 for fiscal 1981) and an increased level of advertising expenditures in fiscal 1982 which did not result in the expected increase in revenues. Such expenditures rose to 8.8% of revenue in fiscal 1982 versus 5.9% in fiscal 1981. Conversely, these factors contributed to the increase in operating margins during fiscal 1983. Media advertising expenditures were reduced to approximately 6.2% of operating revenues in fiscal 1983. Although 21 new Contract Units were opened, the closing of marginal units beginning in the fourth quarter of fiscal 1982 and other cost containment measures instituted in fiscal 1983 also contributed to the improvement in operating margin.

Interest income declined in fiscal 1983 because of lower cash balances (due to expenditures for the acquisition or construction of new facilities, and the expansion of existing facilities) and falling interest rates. The increase in 1982 was principally a result of investing a substantial portion of the proceeds from Registrant's sales of common stock in November, 1980 and August, 1981 in interest bearing securities.

**Liquidity and Capital Commitments**

Registrant's current ratio increased from 4.0:1 at May 31, 1982 to 5.8:1 at May 31, 1983 principally as a result of the cash received from the proceeds of a public offering in April, 1983. Accounts receivable turnover increased from 70 days in May 31, 1982 to 76 days at May 31, 1983, which management believes reflects continuing general economic conditions.

Registrant has committed approximately $18,400,000 for construction of new freestanding facilities in Tampa and Ft. Lauderdale, Florida, Albuquerque, New Mexico and Las Vegas, Nevada, the proposed expansion of the Registrant's alcoholism treatment facility in Fort Worth, Texas and the renovation of three other freestanding facilities. The Registrant intends to obtain secured financing for a portion of its major acquisition, construction or refurbishment expenditures when and as such funds become available at favorable terms and interest rates.

The Registrant has a $3,000,000 bank line of credit, unused at May 31, 1983, which expires on November 30, 1983. Because of its expected cash flow from earnings, continued bank line of credit, present cash on hand and the possibility of obtaining secured financing for a portion of its major planned expenditures, the Registrant believes it will have no difficulty in meeting its obligations during the coming fiscal year

**Impact of Inflation**

Although inflation has become less of a significant factor in the nation's economy, to cope with its effect of 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 To date, these price increases have been adequate to offset the Registrant's increase in costs.

**Item 8. Financial Statements and Supplementary Data.**

## Comprehensive Care Corporation
# Index to Consolidated Financial Statements
Years Ended May 31, 1983, 1982, and 1981



(a) Including selected quarterly financial data

# Report of Independent Certified Public Accountants

To the Stockholders and Board of Directors
Comprehensive Care Corporation

We have examined the consolidated balance sheet of Comprehensive Care Corporation and its subsidiaries as of May 31, 1983 and 1982, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for each of the three years in the period ended May 31, 1983. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Comprehensive Care Corporation and its subsidiaries at May 31, 1983 and 1982, and the results of their operations and changes in their financial position for each of the three years in the period ended May 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis

Lesley, Thomas, Schwarz & Postma

Newport Beach, California
July 18, 1983

Comprehensive Care Corporation and Subsidiaries

# Consolidated Balance Sheet

| Assets | May 31, 1983 | May 31, 1982 |
|---|---|---|
| Current Assets: | | |
| Cash, including time deposits of $45,295,000 and $20,773000 | $ 48,748,000 | $24,243,000 |
| Accounts and notes receivable, less allowance for doubtful accounts of $3,252,000 and $2,143,000 (Note 13) | 20,881,000 | 14,896,000 |
| Inventories (Note 1) | 679,000 | 521,000 |
| Prepaid insurance | 1,069,000 | 587,000 |
| Deferred income taxes (Note 7) | | 285,000 |
| Prepaid—other | 870,000 | 596,000 |
| Total current assets | 72,247,000 | 41,128,000 |
| Property and equipment, at cost (Notes 3, 5 and 8): | | |
| Land and improvements | 7,253,000 | 4,000,000 |
| Buildings and improvements | 25,315,000 | 16,464,000 |
| Furniture and equipment | 7,071,000 | 4,643,000 |
| Leasehold improvements | 891,000 | 886,000 |
| Capital leases | 2,704,000 | 2,704,000 |
| | 43,234,000 | 28,697,000 |
| Less accumulated depreciation and amortization | 6,204,000 | 4,472,000 |
| Total property and equipment | 37,030,000 | 24,225,000 |
| Other assets | | |
| Cost in excess of net assets of businesses purchased (Notes 1 and 9) | 5,014,000 | 871,000 |
| Notes receivable (Note 2) | 1,904,000 | 1,919,000 |
| Investments (Note 6) | 2,586,000 | |
| Other | 710,000 | 930,000 |
| Total other assets | 10 214,000 | 3,720,000 |
| | $119,491,000 | $69,073,000 |

**See notes to consolidated financial statements.**

## Liabilities and Stockholders' Equity

| | May 31, 1983 | May 31, 1982 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 4,187,000 | $ 3,505,000 |
| Accrued salaries and wages | 4,167,000 | 2 309,000 |
| Accrued advertising | 1,009,000 | 1,205,000 |
| Payable to third-party intermediaries | 372,000 | 433,000 |
| Long-term debt payable within one year (Note 3) | 479,000 | 403,000 |
| Income taxes payable | 2,342,000 | 2,339,000 |
| Total current liabilities | 12,556,000 | 10,194,000 |
| Long-term debt due after one year (Note 3) | 6,082,000 | 5,085,000 |
| Deferred income taxes (Note 7) | 384,000 | 233,000 |
| Lease commitments (Note 5) | | |
| Stockholders' equity (Note 4): | | |
| Common stock, $.10 par value; authorized 20,000,000 shares, issued and outstanding, 11,370,212 shares and 9,906,312 shares | 1,137,000 | 991,000 |
| Additional paid-in capital | 75,862,000 | 37,379,000 |
| Retained earnings | 23,490,000 | 15,191,000 |
| Total stockholders' equity | 100,489,000 | 53,561,000 |
| | $119,491,000 | $69,073,000 |

# Comprehensive Care Corporation and Subsidiaries

## Consolidated Statement of Earnings

| | Year Ended May 31, 1983 | 1982 | 1981 |
|---|---|---|---|
| Revenues (Note 1): | | | |
| Operating | $86,126,000 | $68,709,000 | $51,351,000 |
| Interest | 2,845,000 | 4,610,000 | 1,232,000 |
| Other | 412,000 | 166,000 | 173,000 |
| | 89,383,000 | 73,485,000 | 52,756,000 |
| Costs and Expenses: | | | |
| Operating | 46,619,000 | 39,349,000 | 29,546,000 |
| General, administrative and marketing | 18,574,000 | 16,930,000 | 12,227,000 |
| Depreciation and amortization (Notes 1 and 8) | 1,952,000 | 1,448,000 | 977,000 |
| Interest | 660,000 | 603,000 | 617,000 |
| | 67,805,000 | 58,330,000 | 43,367,000 |
| Earnings before income taxes and extraordinary item | 21,578,000 | 15,155,000 | 9,389,000 |
| Taxes on income (Note 7) | 10,811,000 | 7,569,000 | 4,762,000 |
| Earnings before extraordinary item | 10,767,000 | 7,586,000 | 4,627,000 |
| Extraordinary item (Note 10) | | 231,000 | |
| Net earnings | $10,767,000 | $ 7,817,000 | $ 4,627,000 |
| Earnings per common share (Note 1) | | | |
| Primary: | | | |
| Earnings before extraordinary item | $1.07 | $ .81 | $ .65 |
| Extraordinary item | | .03 | |
| Net earnings | $1.07 | $ .84 | $ .65 |
| Fully diluted | | | |
| Earnings before extraordinary item | $1.07 | $ .80 | $ .60 |
| Extraordinary item | | .02 | |
| Net earnings | $1.07 | $ .82 | $ .60 |

**See notes to consolidated financial statements.**

## Comprehensive Care Corporation and Subsidiaries

# Consolidated Statement of Stockholders' Equity

| | Common Stock | | Additional Paid-In | Retained |
|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings |
| Balances, May 31, 1980 | 6,467,368 | $ 323,000 | $ 2,431,000 | $ 4,955,000 |
| Net earnings | | | | 4,627,000 |
| Additional shares issued in a 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 | | 385,000 | (385,000) | |
| Balances, May 31, 1981 | 7,685,972 | 769,000 | 13,544,000 | 8,875,000 |
| Net earnings | | | | 7,817,000 |
| Additional shares issued in a public offering concluded August 19, 1981 | 1,500,000 | 150,000 | 21,553,000 | |
| Conversion of 9% convertible notes | 613,944 | 61,000 | 1,589,000 | |
| Dividends | | | | (1,501,000) |
| Exercise of stock options | 106,396 | 11,000 | 693,000 | |
| Balances, May 31, 1982 | 9,906,312 | 991,000 | 37,379,000 | 15,191,000 |
| Net earnings | | | | 10,767,000 |
| Additional shares issued in a public offering concluded April 21, 1983 | 1,430,000 | 143,000 | 38,142,000 | |
| Dividends | | | | (2,468,000) |
| Exercise of stock options | 33,900 | 3,000 | 341,000 | |
| Balances, May 31, 1983 | 11,370,212 | $1,137,000 | $75,862,000 | $23,490,000 |

**See notes to consolidated financial statements.**

## Comprehensive Care Corporation and Subsidiaries

# Consolidated Statement of Changes in Financial Position

| | Year Ended May 31, | | |
|---|---|---|---|
| | 1983 | 1982 | 1981 |
| **Financial resources provided by:** | | | |
| Operations: | | | |
| Earnings before extraordinary item | $10,767,000 | $ 7,586,000 | $ 4,627,000 |
| Items not requiring outlay of working capital: | | | |
| Depreciation and amortization of property and equipment | 1,908,000 | 1,421,000 | 972,000 |
| Deferred income taxes | 151,000 | 186,000 | 80,000 |
| Annuity income | (86,000) | | |
| Amortization of goodwill | 44,000 | 27,000 | 5,000 |
| Working capital provided by operations | 12,784,000 | 9,220,000 | 5,684,000 |
| Extraordinary item | | 231,000 | |
| Disposal of property and equipment | 179,000 | 126,000 | 60,000 |
| Additional long-term debt | 1,434,000 | 243,000 | 3,273,000 |
| Decrease in notes receivable | 1,433,000 | 106,000 | |
| Issuance of common stock | 38,629,000 | 24,057,000 | 11,559,000 |
| Decrease in other assets | 220,000 | | |
| | 54,679,000 | 33,983,000 | 20,576,000 |
| **Financial resources used for** | | | |
| Acquisition of property and equipment | 14,892,000 | 14,645,000 | 4,812,000 |
| Elimination of capital lease costs net of capital lease obligations of purchased facilities | | 67,000 | 254,000 |
| Reduction of long-term debt | 457,000 | 2,013,000 | 908,000 |
| Increase in notes receivable | 1,418,000 | 1,632,000 | 116,000 |
| Dividends | 2,468,000 | 1,501,000 | 707,000 |
| Increase in costs in excess of net assets of businesses purchased | 4,187,000 | | 691,000 |
| Investments | 2,500,000 | | |
| Other applications | | 19,000 | 336,000 |
| | [illegible]922,000 | 19,877,000 | 7,824,000 |
| Increase in working capital | $28,757,000 | $14,106,000 | $12,752,000 |
| **Summary of changes in components of working capital** | | | |
| Increase (decrease) in current assets | | | |
| Cash | $24,505,000 | $ 9,644,000 | $13,576,000 |
| Accounts and notes receivable | 5,985,000 | 4,176,000 | 3,363,000 |
| Prepaid expenses and inventories | 914,000 | 267,000 | 76,000 |
| Deferred taxes | (285,000) | (29,000) | 314,000 |
| | 31,119,000 | 14,058,000 | 17,329,000 |
| Increase (decrease) in current liabilities | | | |
| Accounts payable and accrued liabilities | 2,344,000 | 915,000 | 1,977,000 |
| Payable to third party intermediaries | (61,000) | (280,000) | 243,000 |
| Long term debt payable within one year | 76,000 | (454,000) | 488,000 |
| Income taxes payable | 3,000 | (229,000) | 1,869,000 |
| | 2,362,000 | (48,000) | 4,577,000 |
| Increase in working capital | $28,757,000 | $14,106,000 | $12,752,000 |

**See notes to consolidated financial statements.**

Comprehensive Care Corporation and Subsidiaries

# Notes to Consolidated Financial Statements

May 31, 1983, 1982 and 1981

## Note 1—Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Company, its subsidiaries and the Company's 50% interest in the accounts of joint venture partnerships (see Note 2). All significant intercompany accounts and transactions have been eliminated in consolidation.

### Revenue Recognition

Approximately 97% 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 amortized over 25 to 40 years. The amounts at May 31 are net of accumulated amortization of $77,000 and $33,000 in 1983 and 1982, respectively.

### 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 a two-for-one stock split effected July 10, 1981 Fully diluted earnings per share for the year ended May 31, 1981 were calculated after giving effect to the elimination of interest expense, less income tax effect, applicable to the convertible notes During the year ended May 31, 1982, the notes were converted into common stock

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

The weighted average number of shares were as follows

| | Year Ended May 31, | | |
|---|---|---|---|
| | 1983 | 1982 | 1981 |
| Primary | 10 025 098 | 9 344 842 | 7,150 744 |
| Fully diluted | 10 025 098 | 9 510 122 | 7,777 186 |

## Note 2—Accounting for Interests in Joint Venture Partnerships

In 1972, the Company entered into a joint venture partnership, 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 receives a management fee for the hospital it manages, and shares equally in the profits or losses of the joint venture.

In May 1981, the Company entered into two joint venture partnerships in Florida organized for the purpose of owning and operating 84 bed and 120-bed alcoholism treatment facilities in Jacksonville Beach and Tampa on properties owned by the joint venturers. The Company has a 50% interest in each joint venture and will manage each facility for a fee of 6% of the facilities' gross revenues. The Company and its partners will share the joint venturers' profits and losses in proportion to their respective joint venture interests. Construction of the Jacksonville Beach facility was completed in May 1982 and operations commenced. At May 31, 1982, the Company had loaned the joint venture $1,880,000 for the purpose of constructing and furnishing the facility. In June 1982, long-term third-party financing was obtained by the joint venture and a substantial portion of the Company's loan was repaid. The Company agreed to loan the Tampa joint venture $4,000,000 for the purpose of constructing and furnishing this facility. The loan bears interest at the prime rate plus 2%, and is secured by a first mortgage against the facility. Construction of the Tampa facility commenced in December, 1982. At May 31, 1983, the amount outstanding under this loan agreement was $638,000.

During fiscal 1982, the Company entered into a joint venture agreement with members of an insurance group to own and operate an 84-bed alcoholism treatment facility in Cincinnati, Ohio (see Note 9).

The Company consolidates its interest in the assets, liabilities, income and expenses of the joint ventures due to their significance to the Company's total operations. The assets and liabilities of the joint ventures included in the consolidated balance sheet are as follows:

| | May 31, 1983 | May 31, 1982 |
|---|---|---|
| **Assets** | | |
| Current assets | $4,034,000 | $1,807,000 |
| Property and equipment (net) | 2,731,000 | 2,179,000 |
| Other Assets | 84,000 | 38,000 |
| | $6,849,000 | $4,024,000 |
| **Liabilities and partner's equity** | | |
| Current liabilities | $1,241,000 | $ 759,000 |
| Notes payable (1) | 694,000 | 940,000 |
| Long-term liabilities | 960,000 | 798,000 |
| Partner's equity | 3 954,000 | 1,527,000 |
| | $6,849,000 | $4,024,000 |

(1) This amount was offset against the Company's notes receivable of $1388 000 in the consolidated financial statements

The operating results of the joint ventures included in the consolidated statements of earnings are as follows

| | Year Ended May 31 1983 | 1982 | 1981 |
|---|---|---|---|
| Revenues | $10 668 000 | $5 344 000 | $4 731 000 |
| Costs and expenses | | | |
| Operating general administrative and marketing | 787 000 | 3 772 000 | 3 258 000 |
| Depreciation and amortization | 146 000 | 90 000 | 80 000 |
| Interest | 147 000 | 79 000 | 83 000 |
| | 8 080 000 | 3 941 000 | 3 421 000 |
| Earnings before taxes on income | $ 2 588 000 | $1 403 000 | $1 310 000 |

## Note 3—Long-Term Debt

Long-term debt consists of the following:

| | May 31, 1983 | May 31, 1982 |
|---|---|---|
| 7% to 10% notes, payable in monthly installments with maturity dates from 1984 through 1996, collateralized by real and personal property having a net book value of $4,460,000 and $4,211,000 as of May 31, 1983 and 1982, respectively | $2,881,000 | $2,605,000 |
| 8% unsecured notes, payable monthly with maturity dates through 1993 | 494,000 | 548,000 |
| Note payable bearing interest at 65% of prime, payable monthly maturing in 1994, collateralized by real property having a net book value of $1,301,000 at May 31, 1983 | 960,000 | |
| Capital lease obligations (Note 5) | 2,152,000 | 2,227,000 |
| Other | 54,000 | 108,000 |
| | 6,541,000 | 5,488,000 |
| Less amounts due within one year | 479,000 | 403,000 |
| | $6,062,000 | $5,085,000 |

As of May 31, 1983, the annual maturities of long-term debt for the next five years amounted to $479,000 in 1984, $428,000 in 1985, $449,000 in 1986, $478,000 in 1987, and $496,000 in 1988.

At May 31, 1983, the Company had a $3,000,000 revolving line of credit with a bank. During the line period, the Company must maintain compensating balances equal to 5% of the commitment plus 10% of the average outstanding balance. No amounts were outstanding under this line of credit at May 31, 1983.

## Note 4—Stockholders' Equity

The Company effected a two-for-one stock split on July 10, 1981. The following stock option data reflects this stock split.

In November 1973, the Company adopted a non-qualified stock option plan which expired May 31, 1983. Options outstanding at May 31, 1983 must be exercised by October 1986.

| | | Option Price | | Market Price When Granted | |
|---|---|---|---|---|---|
| | Number of shares | Per Share | Aggregate | Per Share | Aggregate |
| Options granted in March 1980 | 140,000 | $5.00-$5.875 | $760,000 | $ 5.875 | $823,000 |
| Options granted on October 1, 1981 | 20,700 | 14.50 | 300,000 | 14.50 | 300,000 |
| Options exercised in fiscal 1982 | (113,000) | 5.00-5.875 | (610,000) | 5.875 | (664,000) |
| Options exercised in fiscal 1983 | (33,900) | 5.00-14.50 | (250,000) | 5.875-14.50 | (259,000) |
| Options outstanding at May 31, 1983 | 13,800 | $14.50 | $200,000 | $14.50 | $200,000 |

On June 24, 1983 the Company adopted a new stock option plan which will be presented to the shareholders for approval at the annual meeting to be held in September, 1983. The total number of shares of common stock which may be granted under this plan cannot exceed 250,000 shares. The Plan is intended to qualify as an Incentive Stock Option Plan under Section 422A of the Internal Revenue Code of 1954, as amended. The plan also provides for the granting of "stock appreciation rights" and "cash appreciation rights" concurrent with the granting of stock options. The Plan provides that options must be exercised within 10 years of the date of grant and that no options may be granted under the Plan subsequent to May 31, 1993.

On April 21, 1983 the Company issued 1,430,000 shares of common stock in a public offering. The price to the public was $28.00 per share, underwriting discounts and commissions were $1.12 per share, other related expenses $.11 per share. The net proceeds to the Company were approximately $26.77 per share or $38,285,000.

On August 19, 1981 the Company issued 1,500,000 shares of common stock in a public offering. The price to the public was $15.50 per share, underwriting discounts and commissions were $.90 per share, other related expenses $.13 per share. The net proceeds to the Company were approximately $14.47 per share or $21,703,000.

On November 7, 1980, the Company issued 1,200,000 shares of common stock in a public offering. The price to the public was $10.44 per share, underwriting discounts and commissions were $.65 per share, other related expenses $.20 per share. The net proceeds to the Company were approximately $9.59 per share or $11,509,000.

## Note 5—Lease Commitments

The Company and the Neuro Affiliates joint venture partnership lease facilities, land, furniture and equipment. The facility leases contain clauses for escalations based on the Consumer Price Index and provisions 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, | | |
|---|---|---|---|
| | 1983 | 1982 | 1981 |
| Minimum rentals | $482,000 | $479,000 | $417,000 |
| Contingent rentals | 9,000 | 34,000 | 16,000 |
| Total rentals | $491,000 | $513,000 | $433,000 |

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease; contingent rents associated with capital leases in fiscal 1983, 1982 and 1981 were $122,000, $165,000 and $189,000, respectively. The net book value of capital leases at May 31, 1983 and 1982, was $1,647,000 and $1,763,000, respectively.

Future minimum payments, by year and in the aggregate, under capital leases and non-cancellable operating leases with initial or remaining terms of one year or more consisted of the following at May 31, 1983:

| | Capital Leases | | | |
|---|---|---|---|---|
| | Company | Joint Venture | Total | Operating Leases |
| 1984 | $ 204,000 | $ 122,000 | $ 326,000 | $ 519,000 |
| 1985 | 204,000 | 122,000 | 326,000 | 434,000 |
| 1986 | 204,000 | 122,000 | 326,000 | 286,000 |
| 1987 | 204,000 | 122,000 | 326,000 | 263,000 |
| 1988 | 204,000 | 100,000 | 304,000 | 92,000 |
| Later years | 2,888,000 | 711,000 | 3,599,000 | 1,194,000 |
| Total minimum lease payments | $3,908,000 | $1,299,000 | 5,207,000 | $2,786,000 |
| Less amounts representing interest | | | 3,055,000 | |
| Present value of net minimum lease payments | | | $2,152,000 | |

**Note 6—Deferred Compensation Plan**

The Company has a deferred compensation plan for its President. The vested unfunded benefits at May 31, 1983 and 1982 ($619,000 and $477,000), have been accrued by the Company. The Company utilized an 8% discount rate in determining the present value of vested unfunded past service cost. The total charges to earnings for fiscal years 1983, 1982 and 1981 amounted to $142,000, $149,000 and $290,000, respectively. During the fiscal year ended May 1983, the Company purchased a $500,000 annuity from which it intends to meet future obligations of this plan.

In fiscal 1983, the Company also adopted a deferred compensation plan for its key executives. Under provisions of this plan, participants may elect to defer a portion of their current compensation to future periods. A $2,000,000 annuity was purchased to meet anticipated obligations under this plan.

## Note 7—Taxes on Income

Federal and state taxes on income consist of the following:

| | Year Ended May 31, | | |
|---|---|---|---|
| | 1983 | 1982 | 1981 |
| Currently payable: | | | |
| Federal income taxes | $ 7,247,000 | $6,197,000 | $4,186,000 |
| State income taxes | 1,473,000 | 1,260,000 | 850,000 |
| | 8,720,000 | 7,457,000 | 5,036,000 |
| Tax benefit from exercise of stock options | 38,000 | 209,000 | |
| Deferred federal income taxes | 1,750,000 | (98,000) | (253,000) |
| Deferred state income taxes | 303,000 | 1,000 | (21,000) |
| | 2,091 000 | 112,000 | (274,000) |
| | $10,811,000 | $7,569,000 | $4,762,000 |

A reconciliation between total income taxes and the amount computed by applying the statutory federal income tax rate (46%) to earnings before taxes on income is as follows:

| | Year Ended May 31, | | |
|---|---|---|---|
| | 1983 | 1982 | 1981 |
| Statutory tax rate applied to pre-tax earnings | $ 9,926,000 | $6,971,000 | $4,319,000 |
| Add state income taxes net of federal tax benefit | 981,000 | 703,000 | 476,000 |
| Deduct investment tax credit | (237,000) | (112,000) | (56,000) |
| Other | 141,000 | 7,000 | 23,000 |
| | $10,811,000 | $7,569,000 | $4,762,000 |

Tax expense differs from taxes currently payable as a result of 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, | | |
|---|---|---|---|
| | 1983 | 1982 | 1981 |
| Excess tax over book depreciation | $ 238,000 | $152,000 | $ 70,000 |
| Cash basis accounting and different reporting period for tax purposes by joint venture | 928,000 | 35,000 | 101,000 |
| State income taxes not currently deductible | (194,000) | (188,000) | (190,000) |
| Deferred compensation expense not currently deductible | (77,000) | (74,000) | (159,000) |
| Cash basis accounting by subsidiaries | 573,000 | 86,000 | |
| Compensated absence expense not deducted for tax purposes | (97,000) | (89,000) | (85,000) |
| Employee benefit expenses not currently deductible for book purposes | 589,000 | | |
| Tax benefit from exercise of stock options | 38,000 | 209,000 | |
| Other | 93,000 | (19,000) | (11,000) |
| | $2,091,000 | $112,000 | $(274,000) |

## 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.

| Cost | Balance Beginning of Period | Additions At Cost | Retirements | Other Changes (a) | Balance End of Period |
|---|---|---|---|---|---|
| Year ended May 31, 1983 | | | | | |
| Land and improvements | $ 4,000,000 | $ 3,253,000 | | | $ 7,253,000 |
| Buildings and improvements | 16,464,000 | 8,851,000 | $ 57,000 | $ 57,000 | 25,315,000 |
| Furniture and equipment | 4,643,000 | 2,783,000 | 298,000 | (57,000) | 7,071,000 |
| Leasehold improvements | 886,000 | 5,000 | | | 891,000 |
| Capitalized building leases | 2,704,000 | | | | 2,704,000 |
| | $28,697,000 | $14,892,000 | $ 355,000 | $ — | $43,234,000 |
| Year ended May 31, 1982 | | | | | |
| Land and improvements | $ 1,319,000 | $ 2,658,000 | | $ 23,000 | $ 4,000,000 |
| Buildings and improvements | 5,803,000 | 10,649,000 | $ 3,000 | 15,000 | 16,464,000 |
| Furniture and equipment | 3,725,000 | 1,195,000 | 259,000 | (18,000) | 4,643,000 |
| Leasehold improvements | 763,000 | 143,000 | | (20,000) | 886,000 |
| Capitalized building leases | 4,695,000 | | 1,991,000 | | 2,704,000 |
| | $16,305,000 | $14,645,000 | $ 2,253,000 | $ — | $28,697,000 |
| 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 | ,893,000 | 928,000 | $ 96,000 | | 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 |
| | $13,186,000 | $ 4,812,000 | $ 1,693,000 | | $16,305,000 |

(a) Reclassifications

| Accumulated Depreciation and Amortization | Balance Beginning of Period | Additions Charged To Expense | Retirements | Other Changes (a) | Balance End of Period |
|---|---|---|---|---|---|
| Year ended May 31, 1983 | | | | | |
| Buildings and improvements | $ 1,382,000 | $ 917,000 | $ 43,000 | $ (1,000) | $ 2,255,000 |
| Furniture and equipment | 1,862,000 | 774,000 | 133,000 | | 2,503,000 |
| Leasehold improvements | 287,000 | 101,000 | | 1,000 | 389,000 |
| Capitalized building leases | 941,000 | 116,000 | | | 1,057,000 |
| | $ 4,472,000 | $ 1,908,000 | $ 176,000 | $ — | $ 6,204,000 |
| Year ended May 31, 1982 | | | | | |
| Buildings and improvements | $ 794,000 | $ 590,000 | | $ (2,000) | $ 1,382,000 |
| Furniture and equipment | 1,427,000 | 557,000 | $ 136,000 | 14,000 | 1,862,000 |
| Leasehold improvements | 198,000 | 101,000 | | (12,000) | 287,000 |
| Capitalized building leases | 2,164,000 | 173,000 | 1,396,000 | | 941,000 |
| | $ 4,583,000 | $ 1,421,000 | $ 1,532,000 | $ — | $ 4,472,000 |
| 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 |
| | $ 4 121,000 | $ 972,000 | $ 510,000 | | $ 4,583,000 |

(a) Reclassifications

## Note 9—Acquisition and Disposition of Hospital Facilities

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 governmental approvals to convert the hospital to an alcoholism treatment facility. The Company leased 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 organized a joint venture with members of an insurance group, which in June 1983 loaned the joint venture $4,000,000 to purchase the facility from the Company. The joint venture had begun operating the hospital as an alcoholism treatment facility June 1, 1982. The Company receives a management fee of 7% of the facility's gross revenues and shares equally in the joint venture's profits and losses.

In January, 1983, the Company purchased the real and personal property and accounts receivable of a hospital in St. Louis, Missouri for approximately $6,050,000 in cash, plus 75% of such receivables collected in excess of $1,200,000. The purchase price was partially offset by indebtedness of approximately $1,550,000 owed by the hospital to the Company with respect to Contract Services. The Company is currently operating 180 beds of this hospital's 260-licensed beds as CareUnit Hospital of St. Louis. The hospital offers alcoholism and mental illness treatment services.

On January 6, 1983, the Company purchased land in Las Vegas, Nevada for approximately $1,400,000 in cash. The Company has obtained a Certificate of Need and plans to construct a 50-bed adolescent specialty hospital on the property.

The Company has entered into a 30-year land lease in Albuquerque, New Mexico on which it is presently constructing a 70-bed alcoholism specialty hospital.

On March 30, 1983, the Company purchased the capital stock of Starting Point, Inc. for $5,100,000 in cash. Approximately $4,200,000 of the purchase price was recorded as goodwill. The Sacramento based Starting Point operates 102 chemical dependency beds under contracts with four northern California hospitals and owns a 68-bed chemical dependency recovery hospital, which was opened in May, 1983. Although temporarily closed, Starting Point also owns a 25-bed treatment facility, which the Company intends to refurbish and to reopen as an adolescent treatment center.

In March, 1983, the Company agreed to purchase land in Ft. Lauderdale, Florida, for $850,000 in cash, subject to its obtaining necessary regulatory approvals. Such approvals have been obtained and the property was purchased in July, 1983. The Company intends to construct a 100-bed free-standing adult and adolescent chemical dependency treatment facility on this site commencing in the fall of 1983. The facility will be held in a joint venture with a group of private investors. The Company will own 50% of the venture and manage the facility for a fee.

## Note 10—Extraordinary Item

In June 1981, the Company recorded pre-tax income of approximately $461,000 ($231,000 net of applicable income taxes) 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, 1983 and 1982**

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **1983** | | | | |
| Revenues | $20,916,000 | $21,063,000 | $21,123,000 | $26,281,000 |
| Earnings before income taxes | $ 5,490,000 | $ 5,253,000 | $ 4,258,000 | $ 6,577,000 |
| Federal and state income taxes | 2,750,000 | 2,643,000 | 2,183,000 | 3,235,000 |
| Net earnings | $ 2,740,000 | $ 2,610,000 | $ 2,075,000 | $ 3,342,000 |
| Per share—fully diluted | $ .28 | $ .26 | $ .21 | $ .32 |
| **1982*** | | | | |
| Revenues | $16,927,000 | $18,340,000 | $17,696,000 | $20,522,000 |
| Earnings before income taxes and extraordinary item | $ 3,507,000 | $ 3,860,000 | $ 2,892,000 | $ 4,896,000 |
| Federal and state income taxes | 1,771,000 | 1,949,000 | 1,379,000 | 2,470,000 |
| Earnings before extraordinary item | $ 1,736,000 | $ 1,911,000 | $ 1,513,000 | $ 2,426,000 |
| Per share—fully diluted | $ .20 | $ .20 | $ .15 | $ .25 |

*The quarterly results for fiscal 1982 have been presented exclusive of the $231,000 extraordinary item recorded in the first quarter.

**Note 12—Supplementary Statement of Earnings Information**

Advertising costs for fiscal years 1983, 1982 and 1981 amounted to $6,217,000, $6,784,000 and $3,405,000 respectively. No other reporting categories are required for Form 10-K.

**Note 13—Valuation and Qualifying Accounts**

| | | Additions | | Deductions | |
|---|---|---|---|---|---|
| Description | Balance at beginning of period | Charged to revenue | Charged to other accounts | Write-off of accounts | Balance at end of period |
| Allowance for doubtful accounts (deducted from accounts receivable in the balance sheet): | | | | | |
| Year ended May 31, 1983 | $2,143,000 | $3,784,000 | $541,000(a)<br>430,000(b) | $3,646,000 | $3,252,000 |
| Year ended May 31, 1982 | $1,480,000 | $2,557,000 | $487,000(a) | $2,381,000 | $2,143,000 |

(a) Amounts are recoveries on accounts previously charged to this reserve
(b) Acquired with purchase of new facility

**Note 14—Subsequent Event**

In June, 1983 the Company entered into a joint venture agreement with a subsidiary of Voluntary Hospitals of America, Inc. This partnership will be known as Behavioral Medical Care and will market the Company's services to the approximately 150 V.H.A. member or affiliate hospitals. The Company has a 70% interest in the joint venture and will act as its managing partner.

# Part III

## Item 10. 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 September 29, 1983.

## Item 11. 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 September 29, 1983.

## Item 12. Security Ownership of Certain Beneficial Owners and Management.

There is hereby incorporated by reference the information which will appear under the caption "General Information" 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 September 29, 1983.

# Part IV

## Item 13. 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, 1983 and 1982
         Consolidated Balance Sheet
      Year Ended May 31, 1983, 1982 and 1981
         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 Statement Schedules
   Information required to be filed as Financial Statement Schedules has been included in Notes to Consolidated Financial Statements. Other Schedules are omitted because the conditions requiring their filing do not exist.

   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 filed during 4th quarter of fiscal year 1983

## 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, August 5, 1983.

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) and Director | August 5, 1983 |
| W. James Nicol | Senior Vice President (Chief Financial Officer) | August 5, 1983 |
| Stephen R. Munroe | Vice President Accounting Services (Chief Accounting Officer) | August 5, 1983 |
| Stewart B. Hoover, M.D. | Director | August 5, 1983 |
| Jack A. McLeod | Director | August 5, 1983 |
| Joseph A. Pursch, M.D. | Director | August 5, 1983 |

**Index to Exhibits**
**Item 11(a)3**

| | | |
|---|---|---|
| 10.20 | Jacksonville Port Authority Alcoholic Treatment and Rehabilitation Facility Revenue Bond (Caremanor of Northeast Florida Project) dated June 30, 1982, in the amount of $2,000,000 (11) | |
| 10.21 | Guaranty Agreement dated June 1, 1982, from Caremanor of Northeast Florida, Registrant, Womlar, Inc., Burch Williams, Arthur Lucas, Fred Ahern, Sr., and Algie Outlaw to Southeast Bank, N.A. (11) | |
| 10.22 | Letter dated July 17, 1981, from Nossaman, Krueger & Marsh to Steven H. Suffin with attached escrow instructions (re purchase of Trinity Oaks Hospital, Inc.) (11) | |
| 10.23 | Construction Loan Agreement dated November 12, 1982, between Registrant and Caremanor of Tampa (re CareUnit of Tampa) (11) | |
| 10.24 | Contractor's Agreement dated August 30, 1982, between CareUnit of Tampa and Metric Constructors, Inc. (re construction of CareUnit of Tampa alcoholism facility) (11) | |
| 10.25 | Lease Agreement dated January 27, 1982, between St. Joseph Development Corporation and Registrant and Addendum to Base Lease dated March 4, 1983 (re Albuquerque alcoholism facility) (11) | |
| 10.26 | Contractor's Agreement dated March 30, 1983, between Registrant and M. A. Mortenson Company (re construction of Albuquerque alcoholism facility) (11) | |
| 10.27 | Land Option Agreement dated April 22, 1982, between John K. Biegger and Registrant and Amendment to Land Option Agreement and Escrow instructions dated November 30, 1982 (re Las Vegas facility) (11) | |
| 10.28 | Third Amendment to Loan Agreement dated September 24, 1982, between Registrant and Union Bank (re $3,000,000 Revolving Loan) (11) | |
| 10.29 | Group Annuity Contract between Registrant and Manufacturers Life Insurance Company, dated April 18, 1983. (Filed herewith) | |
| 10.30 | Annuity Contract between Registrant and New York Life Insurance and Annuity Corporation dated November 2, 1982. (Filed herewith) | |
| 11 | Computation of Earnings per Share. (Filed herewith) | |
| 22 | List of Registrant's subsidiaries. (Filed herewith) | |

(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-K for the fiscal year ended May 31, 1980.
(3) Filed as an exhibit to Registrant's Form S-8 Registration Statement No 1-62410.
(4) Filed as an exhibit to Registrant's Form 10-K for the fiscal year ended May 31, 1977
(5) Filed as an exhibit to Registrant's Form S-1 Registration Statement No. 2-35139.
(6) Filed as an exhibit to Registrant's Form 8-K for November 1972.
(7) Filed as an exhibit to Registrant's Form 8-K dated July 1, 1981.
(8) Filed as an exhibit to Registrant's Form 10-K for the fiscal year ended May 31, 1981.
(9) Filed as an exhibit to Registrant's Form S-8 Registration Statement No. 1-75129.
(10) Filed as an exhibit to Registrant's Form 10-K for the fiscal year ended May 31, 1982.
(11) Filed as an exhibit to Registrant's Form 10-Q for the quarter ended February 28, 1983.

All such exhibits are incorporated herein by this reference.

**Directors**
Walter W. Heller, Ph.D.
Regents' Professor of Economics
University of Minnesota
Minneapolis, Minnesota

Stewart B. Hoover, M.D.
Medical Director, Brea Hospital
Neuropsychiatric Center
Brea, California

Robert B. Hunter, M.D.
Physician—Private Practice
Sedro-Woolley, Washington

B. Lee Karns
President of the Company

George J. Lyon
Principal
Moore, Juran & Co., Inc.
Minneapolis, Minnesota

Jack A. McLeod
First Vice President
Bateman Eichler, Hill Richards
San Diego, California

Joseph A. Pursch, M.D.
Corporate Medical Director,
Physician—Private Practice
Orange, California

**Officers**
B. Lee Karns
President

William James Nicol
Senior Vice President
Secretary

Robert W. Rasner
Senior Vice President

Edward J. Carels, Ph.D.
Vice President
Communications

James P. Carmany
Vice President
Contract Division

Nancy J. Corday
Vice President
Development

Edward A. Johnson
Vice President
Hospital Division

Robert L. Kasselmann
Vice President
Special Services

Stephen R. Munroe
Vice President
Accounting Services

Lynn E. Perdue
Vice President
Marketing

Richard A. Santoni, Ph.D.
Vice President
Human Resources

John J. Acurso
Treasurer

Cheryl A. Arnold
Assistant Secretary

**Legal Counsel**
Nossaman, Guthner, Knox & Elliott
Los Angeles, California

**Independent Public Accountants**
Lesley, Thomas,
Schwarz & Postma
Newport Beach, California

**Transfer Agent**
U.S. Stock Transfer
Corporation
Glendale, California

**NASDAQ Stock Listing**
Symbol "CMPH"

**Annual Meeting**
September 29, 1983
10:00 A.M.
Irvine Marriott Hotel
18000 Von Karman
Irvine, CA 92715

**Corporate Headquarters**
660 Newport Center Drive
Newport Beach, CA 92660
Telephone: 714/640-8950

**St. Louis**
**Regional Headquarters**
12255 DePaul Drive
Bridgeton, MO 63044
Telephone: 314/291-1144

# LIST OF REGISTRANT'S SUBSIDIARIES

| Company | State or Jurisdiction of Incorporation | Names Under Which Doing Business |
|---|---|---|
| NPHS, Inc. | California | Brea Hospital; Tustin Manor; Neuro Affiliates |
| Trinity Oaks Hospital, Inc. | Texas | CareUnit Hospital of Dallas/Ft. Worth |
| CAREUNIT, Inc. | California | Same |
| Caremanor Hospital of Virginia, Inc. | California | Same |
| Caremanor Hospital of Washington, Inc. | Washington | CareUnit Hospital of Kirkland |
| CareUnit Hospital of St. Louis, Inc. | Missouri | Same |
| Starting Point, Inc. | California | Same |
| RehabCare Corporation* | Delaware | Same |
| Terracina Convalescent Hospital & Home, Inc. | California | Same |
| Comprehensive Care Corporation (Canada) Limited** | Alberta, Canada | Same |

* Registrant has a 50% interest in this corporation.

** Registrant has an 80% interest in this subsidiary.

EXHIBIT 22

END