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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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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, 1990

Commission file no. ~~0-5751~~ 001-09927

COMPREHENSIVE CARE CORPORATION
(Exact name of Registrant as specified in its charter)

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Bechtel Information Services
Gaithersburg, Maryland

Delaware (State or other jurisdiction of incorporation or organization)	95-2594724 (I.R.S. Employer Identification No.)
1795 Clarkson Road Suite 301 Chesterfield, Missouri 63017 (Address of principal executive offices)	63017 (Zip code)

Registrant's telephone number, including area code (314) 537-1288

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

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $.10 per share	New York Stock Exchange, Inc.
Common Share Purchase Rights	New York Stock Exchange, Inc.

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

7 1/2% Convertible Subordinated Debentures due 2010
(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 X No __

The aggregate market value of voting stock held by non-affiliates of the Registrant at August 31, 1990, was $18,572,751.

At August 31, 1990, the Registrant had 10,173,663 shares of Common Stock outstanding.

Documents Incorporated by Reference

Part III incorporates information by reference from the Registrant's joint proxy and revocation of consent statement in opposition to the solicitation of consents by a dissident group of stockholders to remove and elect directors, which joint proxy and revocation of consent statement has been filed.

Exhibit index appears on page 58

PART I

Item 1. BUSINESS.

The Registrant, Comprehensive Care Corporation, is a Delaware corporation which was organized in January 1969. The Registrant is primarily engaged in the development, marketing and management of programs for the treatment of chemical dependency, including alcohol and drugs, and psychiatric disorders. It is a national provider of chemical dependency treatment programs. The programs are provided under contractual agreements with independent general hospitals or at freestanding facilities owned and/or operated by the Registrant. A wholly owned subsidiary, CareUnit, Inc., develops, markets and manages the Registrant's chemical dependency and psychiatric contract programs. During fiscal 1990, chemical dependency and psychiatric treatment programs accounted for approximately 72% of the Registrant's operating revenues. A wholly owned subsidiary of the Registrant, RehabCare Corporation ("RehabCare") develops, markets and manages programs for the delivery of comprehensive medical rehabilitation services to functionally disabled persons. The following table sets forth for each of the years in the five-year period ended May 31, 1990, the contribution to operating revenues of the Registrant's freestanding operations, CareUnit, Inc. contracts, RehabCare programs, and its other activities.

	Years Ended May 31,				
	1990	1989	1988	1987	1986
Freestanding operations	53%	62%	58%	53%	56%
CareUnit, Inc. contracts	19	21	28	35	38
RehabCare programs	23	12	8	6	1
Other activities	5	5	6	6	5
	100%	100%	100%	100%	100%

First Hospital Corporation Transaction. In April 1989, the Registrant entered into an Agreement and Plan of Reorganization, as amended, by and among the Registrant, First Hospital Corporation, a Virginia corporation, and FHC-CompCare, Inc., a Delaware corporation formed for the purpose of effecting the transactions contemplated by the reorganization agreement. At a special meeting of the stockholders of the Registrant held in September 1989, the stockholders of the Registrant approved the proposed reorganization. However, in late October 1989, one of First Hospital Corporation's lenders advised First Hospital Corporation that it would not proceed with the financing necessary to fund the proposed reorganization and on October 26, 1989, the Registrant terminated the reorganization agreement. For a discussion of current litigation relating to the terminated reorganization, see Item 3, "LEGAL PROCEEDINGS".

FREESTANDING OPERATIONS

The Registrant currently operates or participates in the operation of 17 facilities representing 1,513 available beds. Freestanding facilities are either owned or leased by the Registrant or by joint ventures in which the Registrant and its partners share in the profits or losses. One psychiatric hospital (41 available beds) managed by the Registrant is leased by such a joint venture, and one psychiatric hospital (100 available beds) is managed by the Registrant's partner in the joint venture. In fiscal 1990, the Registrant had a 50% interest in this joint venture. In fiscal 1990, a joint venture in which the Registrant participated sold its interest in a 69-bed psychiatric facility located in Sacramento, California. The Registrant also closed CareUnit of San Diego and CareUnit Hospital of St. Louis, 92- and 144-bed, respectively, chemical dependency facilities. In May 1990, the Registrant closed the 25-bed Starting Point, Grand Avenue facility in Sacramento, California and transferred those operations to Starting Point, Oak Avenue, in Orangevale, California. Early in the first quarter of fiscal 1991, the Registrant sold the Brea Hospital Neuropsychiatric Center in Brea, California to Community Psychiatric Centers of Laguna Hills, California for approximately $12 million. The Brea property included a newly constructed 151-bed acute psychiatric hospital and the existing 142-bed hospital, which was closed on completion of the replacement facility.

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The following table sets forth selected operating data regarding the Registrant's freestanding facilities. Facilities are designated either psychiatric or chemical dependency based on the predominant treatment provided. For information concerning the nature of the Registrant's interest in the facilities, see Item 2, "PROPERTIES".

	Year Acquired(1)	Licensed Beds	Patient Days 1990	1989	1988	1987	1986
Chemical Dependency Facilities							
CareUnit Hospital of Fort Worth	1971	83	15,612	23,414	22,907	24,139	26,696
CareUnit Hospital of Orange	1976	104	18,737	29,579	32,652	29,697	33,763
CareUnit Hospital of Kirkland	1981	83	12,812	17,136	19,574	18,640	24,336
CareUnit of Jacksonville Beach	1982	84	12,430	28,218	27,613	21,065	22,818
CareUnit Hospital of Cincinnati	1982	128	20,608	30,778	29,446	25,955	29,065
Starting Point, Oak Avenue (2)	1983	136	21,155	36,039	33,882	28,842	29,969
Starting Point, Orange County	1983	70	12,818	18,913	19,109	19,326	17,421
CareUnit Hospital of Albuquerque	1984	70	7,215	15,543	17,187	16,730	16,080
CareUnit Hospital of Nevada	1984	50	11,644	13,626	13,738	11,615	8,748
CareUnit of Coral Springs	1985	100	13,293	22,399	23,639	21,735	12,398
CareUnit of Grand Rapids	1985	76	10,190	15,212	13,483	8,595	3,386
CareUnit of Orlando	1987	100	7,486	18,115	15,844	106	--
CareUnit of Colorado	1988	100	11,709	16,014	4,303	--	--
CareUnit of South Florida/Tampa	1988	100	7,813	14,653	--	--	--
Psychiatric Facilities							
Brea Hospital Neuropsychiatric Center(3)	1969	142	15,032	32,240	33,225	39,237	43,870
Crossroads Hospital	1972	41	6,747	10,942	12,281	14,148	13,657
Woodview-Calabasas Hospital	1970	117	14,318	15,513	19,143	22,473	23,104
Closed/Sold Facilities							
CareUnit of San Diego (4)			2,972	13,329	2,872	--	--
CareUnit Hospital of St. Louis (4)			10,117	29,449	24,353	21,278	43,822
Sutter Center for Psychiatry (4)			9,516	16,761	--	--	--
Golden Valley Health Center			--	31,249	48,877	54,970	56,453
CareUnit of DuPage			--	10,833	11,969	3,916	--
CareUnit Behavioral Center of Los Angeles			--	--	16,341	16,029	19,629
Other Closed Facilities			--	--	2,839	17,873	10,764
Patient days served during period			242,224	459,955	445,277	416,369	435,979
Admissions			14,388	24,715	20,783	17,835	17,964
Available beds at end of period (5)			1,513	1,876	2,067	1,927	1,687
Average occupancy rate for period (6)			36%	60%	61%	65%	73%

(1) Calendar year acquired or leased.
(2) Includes Starting Point, Grand Avenue which was closed in May 1990. Operations for Starting Point, Grand Avenue have been transferred to Starting Point, Oak Avenue.
(3) In June 1990, the old 142-bed and replacement 151-bed psychiatric facilities were sold to Community Psychiatric Centers.
(4) In December 1989, CareUnit of San Diego, a 92-bed chemical dependency facility, was closed. In April 1990, CareUnit Hospital of St. Louis, a 144-bed chemical dependency facility, was also closed. Both facilities were closed because of continuing significant operating losses. In December 1989, Behavioral Medical Care ("BMC"), a joint venture in which the Registrant held a 70% interest, sold its 49% interest in the Sutter-BMC joint venture, which owned and operated a 69-bed psychiatric facility, to its joint venture partner and one of such partner's affiliates.
(5) A facility may have appropriate licensure for more beds than are in use for a number of reasons, including lack of demand, anticipation of future need, renovation and practical limitations in assigning patients to multiple-bed rooms. Available beds is defined as the number of beds which are available for use at any given time.
(6) Average occupancy rate is calculated by dividing total patient days by the number of available bed-days during the relevant period.

Freestanding Facility Programs

The Registrant's freestanding facilities offer a variety of behavioral medicine programs. The programs offered at a given freestanding facility are determined by the licensure of the facility, the extent and nature of competitive programs, the population base and demographics, and reimbursement considerations. A program within the facility represents a separately staffed unit dedicated to the treatment of individuals whose primary diagnosis suggests that their treatment needs will best be met within the unit. Patients whose diagnosis suggests the need for supplemental services are accommodated throughout their stay as dictated by the individual treatment plan developed for each patient.

Chemical Dependency. Chemical dependency programs, offered in all freestanding facilities except Woodview-Calabasas and Crossroads, are delivered under the names CareUnit and Starting Point and include programs for adults and adolescents. Each patient admitted to the facility is subject to a full medical and social history as well as a physical examination which includes those diagnostic studies ordered by the patient's attending physician. Patients are detoxified under close medical supervision for a period averaging four days prior to entry to the rehabilitation phase of treatment. The rehabilitation phase of treatment begins as soon as detoxification is completed. This phase of treatment includes lectures; individual, family and group counseling sessions; and such medical, psychological, and other modalities that may be necessary to meet the individual patient's needs. The average length of stay for an adult patient is approximately 14 days, which includes detoxification. The average length of stay for an adolescent patient is approximately 25 days. After discharge from the facility, the patient's recovery is monitored for a 12-week period during which the patient and family members return to the facility once a week for outpatient counseling sessions.

For individuals who do not require the structure and intensity of inpatient treatment, the Registrant has developed outpatient programs which generally operate in conjunction with existing inpatient programs. During the third quarter of fiscal 1990, in response to the changing needs of third-party payers, the Registrant expanded the services offered at most of its freestanding facilities to include not only outpatient treatment programs, but daycare and residential programs as well. These programs provide a broad continuum of care which allows the Registrant to better tailor individual treatment programs for its patients. Participants in daycare programs generally are at the facility six to eight hours per day during which time they participate in the same rehabilitative phase of treatment as those in the inpatient program. Participants in the outpatient programs generally attend treatment sessions three times per week, in the evening, for two to three hours per session. Length of stay in these programs is dependent upon the individual's level of need and can vary from several weeks to several months. Inpatient residential programs offer treatment for those who need inpatient care, but whose level of acuity is such that they do not need the medical support offered by the Registrant's traditional inpatient program. At May 31, 1990, 59 such outpatient, daycare and residential programs were in operation.

Psychiatric. Psychiatric programs are offered in certain of the Registrant's freestanding facilities. The type of program offered at a given freestanding facility is dependent upon the extent of community need, the competitive environment, and the licensure status of the facility. Admission to the programs offered by the Registrant is typically voluntary although certain facilities provide emergency psychiatric services and accept involuntary patients who are suffering an acute episodic psychiatric incident.

Each patient admitted to a psychiatric program undergoes a complete assessment including an initial evaluation by a psychiatrist, a medical history, physical examination, a laboratory work-up, a nursing assessment, a psychological evaluation, and social and family assessments. The assessments are utilized to develop an individualized treatment plan for each patient.

The treatment programs are undertaken by an interdisciplinary team of professionals experienced in the treatment of psychiatric problems. Length of stay varies in accordance with the severity of the patient's condition. A comprehensive discharge plan is prepared for each patient which may include outpatient psychiatric or psychological treatment, or referral to an alternate treatment facility.

Eating Disorders. The Registrant began providing eating disorders services in 1983. This program treats those individuals suffering from anorexia nervosa, bulimia and gross obesity. Each patient entering the program is subject to a physical examination and nutritional assessment. Additional diagnostic and psychiatric evaluations are undertaken when necessary. Each patient's treatment is directed by a physician experienced in the treatment of eating disorders. Eating disorders programs are offered by the Registrant only in certain freestanding facilities. Each facility offering said services is licensed as a psychiatric hospital. The eating disorders program includes: individual and group therapy, nutritional guidance and management of attendant medical or psychological problems.

Development of Freestanding Facilities

The Registrant presently has no active or planned development projects with respect to freestanding facilities. The development and operation of health care facilities is subject to compliance with various federal, state and local statutes and regulations. Health care facilities operated by the Registrant must comply with the licensing requirements of federal, state and local health agencies, with state mandated rate control initiatives and with the requirements of municipal building codes, health codes and local fire departments. State licensing of facilities is a prerequisite to participation in the Medicare and Medicaid programs.

Pursuant to the requirements of federal law, many states have enacted Certificate of Need ("CON") laws to curtail the proliferation of unnecessary health care services. Thus, prior to the construction of new facilities, the expansion of old facilities or the introduction of major new services in existing facilities, the Registrant must demonstrate to either state or local authorities, or both, that it is in compliance with the plan adopted by such agencies. 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. Certain states, including California and Texas, have enacted legislation repealing CON requirements for the construction of new health care facilities or the expansion of existing facilities. CON legislation is also being challenged as anticompetitive in certain other states as it protects existing providers from new competition. The Registrant is unable to predict the outcome of these deliberations.

Factors to be considered in the development of freestanding facilities include population base and demographic characteristics, community pricing standards, state licensure and rate control issues, and CON requirements. During the past five years, the Registrant has focused its development efforts in states where the regulatory environment is relatively less restrictive so that the Registrant has been able to develop sub-acute facilities without obtaining a CON.

In general, sub-acute licensed facilities have lower operating costs than acute licensed facilities. State law governing the operation of health-related facilities typically imposes a higher standard of construction, staffing and operating oversight on facilities licensed for acute treatment. The Registrant has, in some cases, incurred the necessary construction cost to build its facilities to an acute psychiatric standard so that the facility may be converted to an alternative use if necessary. Although the sub-acute model facility has a lower level of operating cost, such facilities are not currently eligible for participation in the Medicare or Medicaid programs.

Sources of Revenues

During fiscal 1990, approximately 88% of the Registrant's operating revenues from freestanding operations were received from private sources (private health insurers or directly from patients) and the balance from Medicare, Medicaid and other governmental programs.

Private health insurers offer plans which typically include coverage for chemical dependency or psychiatric treatment. In some instances, the level of coverage for chemical dependency or psychiatric benefits is less than that provided for medical/surgical services. Lower coverage levels result in higher co-payments by the patient who is often unable to meet his or her commitment in its entirety or is unable to pay as rapidly as the insurance company. In freestanding facilities these factors tend to increase bad debts and days outstanding in receivables.

Private insurance plans vary significantly in their methods of payment, including: cost, cost plus, prospective rate, negotiated rate, percentage of charges, and billed charges. Blue Cross and other commercial insurance plans have adopted a number of payment mechanisms for the primary purpose of decreasing the amounts paid to hospitals (including the Registrant's) for services rendered. These mechanisms include various forms of utilization review, preferred provider arrangements where use of participating hospitals is encouraged in exchange for a discount, and payment limitations or negotiated rates which are based on community standards. The Registrant believes these changing payment mechanisms have had and will continue to have a negative impact on the Registrant's revenues.

Health Maintenance Organizations ("HMOs") and Preferred Provider Organizations ("PPOs") attempt to control the cost of health care services by directing their enrollees to participating physicians and institutions. Aggressive utilization review, limitations on access to physician specialists and increased preadmission certification are used to further limit the cost of service delivery. Such organizations have typically developed on a regional basis where an appropriate enrollee population and mix of participating physicians and institutions can be developed. To the extent that these organizations are successful in a given locale, the Registrant may be faced with a decreased population base (to the extent of the enrolled population) to support its programs. The Registrant believes participation in HMOs and PPOs is continuing to expand. The Registrant also believes that the development of these organizations has had a negative impact on utilization of its freestanding facilities in certain markets. In certain instances the Registrant has elected to participate with the HMO or PPO, in which case the Registrant may discount its charges for service.

Employers, union trusts and other major purchasers of health care services have become increasingly aggressive in pursuing cost containment. To the extent that the major purchasers are self-insured, they have begun actively to negotiate with hospitals, HMOs and PPOs for lower rates. Those major purchasers that are insured or use a third-party administrator expect the insurer or administrator to control claims costs. In addition, many major purchasers of health care services are reconsidering the benefits that they provide and in many cases reducing the level of coverage, thereby shifting more of the burden to their employees or members. Such reductions in benefits have a negative impact on the Registrant's business.

The Medicare program provides hospitalization, physician, diagnostic and certain other services to eligible persons 65 years of age and over and others considered disabled. Providers of service are paid by the federal government in accordance with regulations promulgated by the United States Department of Health and Human Services ("HHS") and accept said payment, with nominal co-insurance amounts required of the service recipient, as payment in full.

Initially, Medicare provided for reimbursement of reasonable direct and indirect costs of the services furnished by hospitals to patients, plus a specified return on equity for proprietary hospitals. As a result of the Social Security Amendments Act of 1983, Congress adopted a prospective payment system ("PPS") to cover routine and ancillary operating costs of most Medicare inpatient hospital services. Under this system, the Secretary of HHS established fixed payment amounts per discharge based on diagnostic-related groups ("DRG"). In general, a hospital's payment for Medicare inpatients is limited to the DRG rate and capital costs on the basis of reasonable cost, regardless of the amount of services provided to the patient or the length of the patient's hospital stay. Under PPS, a hospital may keep any difference between its prospective payment rate and its operating costs incurred in furnishing inpatient services, but is at risk for any operating costs that exceed its payment rate. Psychiatric hospitals, freestanding inpatient rehabilitation facilities and outpatient rehabilitation services are exempt from PPS. Inpatient psychiatric and rehabilitation units within acute care hospitals are eligible to obtain an exemption from PPS upon satisfaction of specified federal criteria. Qualified providers of alcohol and drug treatment services were excluded from PPS until October 1, 1987. Such providers are no longer eligible for exclusion from PPS effective with the beginning of their Medicare fiscal year on or after October 1, 1987 and are paid under PPS.

Exempt hospitals and exempt units within acute care hospitals are subject to limitations on the level of cost or the permissible increase in cost subject to reimbursement under the Medicare program, including those limitations imposed under the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA"). No assurance can be given that psychiatric or rehabilitation services will continue to be eligible for exemption from PPS or that other regulatory or legislative changes will not adversely affect the Registrant's business.

Eight of the Registrant's facilities participate in the Medicare program. Of these, five are currently excluded from PPS (TEFRA limits are applicable to these facilities). Medicare utilization at those facilities participating in the Medicare program averaged approximately 7% in fiscal 1990. The Registrant does not believe that the imposition of TEFRA limits or PPS have had a material adverse impact on its business at its freestanding facilities or that loss of exclusion at freestanding facilities would materially impact the Registrant's business.

Hospitals participating in the Medicare program are required to retain the services of a peer review organization ("PRO"). The PRO is responsible for determining the medical necessity, appropriateness and quality of care given Medicare program patients. In instances where the medical necessity of an admission or procedure is challenged by the PRO, payment may be delayed, reduced or denied in its entirety. Amounts denied because of medical review may not be charged to the service recipient, they are absorbed by the hospital. In nonemergency admissions (which encompass most of the Registrant's admissions) review is performed prior to the patient's arrival at the hospital. In the event that the PRO does not approve the admission, the patient is referred to an alternative treatment provider such as an outpatient program or sent home. The Registrant believes that the existence of PROs has had a negative impact on census growth in certain facilities but is unable to measure the magnitude because the primary impact is in lost admissions.

On October 1, 1987, CHAMPUS adopted a PPS based on DRGs that is presently applicable to chemical dependency services rendered in certain settings. CHAMPUS is a program administered by the U.S. Department of Defense which provides hospital benefits to military retirees and dependents of active military duty personnel unable to obtain treatment in federal hospitals. On September 6, 1988, the Department of Defense issued a final rule adopting a per diem method of payment for mental health services rendered in certain settings under the CHAMPUS program. In addition, the Department of Defense has recently adopted a peer review system modeled after the Medicare peer review system and modified CHAMPUS regulations accordingly. Approximately 4% of the Registrant's total operating revenues in freestanding facilities was derived from the CHAMPUS program for the year ended May 31, 1990. Although not all of the changes made to the CHAMPUS program are presently applicable to certain facilities, there can be no assurance that these changes or similar changes in the future will not negatively impact the ability of the Registrant or its subsidiaries to render services profitably to CHAMPUS beneficiaries.

The Medicaid program is a combined federal and state program providing coverage for low income persons. The specific services offered and reimbursement methods vary from state to state. Less than 1% of the Registrant's freestanding facility revenues are derived from the Medicaid program. Accordingly, changes in Medicaid program reimbursement are not expected to have a material adverse impact on the Registrant's business.

Competition and Promotion

The Registrant competes for patients who utilize freestanding facilities. The Registrant's primary competitors are hospitals and hospital management companies (both not-for-profit and investor-owned) which offer programs similar to those of the Registrant. The Registrant has faced generally increasing competition in the last few years as a result of increased development of competitive programs. Some of the hospitals which compete with the Registrant are either owned or supported by governmental agencies or are owned by not-for-profit corporations supported by endowments and charitable contributions which enable some of these hospitals to provide a wider range of services regardless of cost-effectiveness.

The Registrant and its competitors compete to attract patients to utilize their programs. In many instances the patient may be directed to a specific facility by his or her employer (or their agent), by a physician, by a social services agency, or by another health care provider. The Registrant markets its services by attracting these referral sources to its programs. The primary competitive factors in attracting referral sources, patients and physicians are marketing, reputation, success record, cost and quality of care, location and scope of services offered by a facility. The Registrant has an active promotional program, described below, and believes it is competitive in factors necessary for patient attraction. In addition, the Registrant and its competitors compete to attract qualified physicians and psychiatrists.

The Registrant has a public relations program designed to increase public awareness of the programs offered by the Registrant. During fiscal 1990, the Registrant spent approximately $4.7 million for all forms of advertising in support of its freestanding operations. Media advertising (television, radio and print) was approximately $3.5 million in fiscal 1990. The forms of media used are specifically tailored to the geographic area in which the marketing efforts are directed. The Registrant is in the process of reducing and redirecting its media advertising in response to current inquiry and utilization levels and trends and changes in patient profiles. As a result more emphasis will be placed on radio and cost-effective Yellow Pages advertising instead of television advertising.

Other aspects of the Registrant's public awareness program include a nationwide telephone hot line which is staffed by counselors who provide referral advice and help on a 24-hour basis and a crisis intervention program which assists relatives of chemically dependent or emotionally disturbed individuals in motivating a potential patient to seek professional help through an appropriate program.

CONTRACT OPERATIONS

Behavioral Medicine

As a result of the reorganization of the Registrant's operations in fiscal 1988, CareUnit, Inc. is engaged in the development, marketing, and management of programs for the delivery of behavioral medicine services to patients requiring such services in dedicated units of hospitals. The programs offered are similar to the behavioral medicine programs offered in the Registrant's freestanding facilities.

In June 1983, the Registrant entered into a joint venture with an affiliate of Voluntary Hospitals of America, Inc. ("VHA"), one of the largest associations of not-for-profit hospitals in the United States. The Registrant had a 70% interest in the joint venture called Behavioral Medical Care ("BMC"). BMC markets programs to the VHA network of hospitals. As a part of its internal reorganization, the Registrant assigned its interest in BMC to CareUnit, Inc. which managed the BMC joint venture. In January 1990, the Registrant sold its interest in the BMC joint venture to Parkside Medical Services Corporation for approximately $2.5 million.

Under a contract, the hospital furnishes patients with all hospital facilities and services necessary for their generalized medical care, including nursing, dietary, and housekeeping services. CareUnit, Inc. typically provides support in the areas of program implementation and management, staff recruiting, continuing education, treatment team training, community education, advertising, public relations, insurance, and on-going program quality assurance. CareUnit, Inc. is obligated to provide a multidisciplinary team generally consisting of a physician (who serves as medical director for the program), a program manager, a social worker, a therapist and other appropriate supporting personnel. As a result of reimbursement changes and competitive pressures, the contractual obligations of CareUnit, Inc. have been subject to more intense evaluation during the past year. In general, some prospective client hospitals are expressing a desire for more control over the services provided by CareUnit, Inc. and, in response, CareUnit, Inc. is providing a more flexible approach to contract management.

During fiscal 1990, CareUnit, Inc. continued to experience a decline in the number of contracts and beds in operation. Of the net decline of 58 contracts, over 50% is attributable to the sale of its interest in BMC. The Registrant believes that the remaining decline in the number of contracts and beds under contract is a result of increased competitive pressure and changes in reimbursement patterns, which have had the effect of making

CareUnit, Inc.'s contracts less profitable to hospitals. In addition, CareUnit, Inc. terminated certain marginally profitable contracts during the fiscal year.

The following table sets forth selected operating data regarding behavioral medicine programs managed under contract:

	Years Ended May 31,				
	1990	1989	1988	1987	1986
Number of contracts at end of period (1):					
Adult CareUnits (2)	36	68	82	86	95
Adolescent CareUnits (2)	4	12	22	28	28
Adult CarePsychCenters (2)	6	17	21	20	22
Adolescent CarePsychCenters (2)	1	5	6	9	8
Eating disorders units	2	5	4	8	11
Total	49(3)	107	135	151	164
Available beds at end of period	1,210	2,640	3,446	3,860	3,981
Patient days served during period	358,185	616,862	769,255	845,853	803,255
Admissions	23,996	38,225	45,171	48,100	44,136
Average occupied beds per contract	12.9	14.0	14.2	14.5	15.1
Average occupancy rate for period (4)	50%	57%	57%	58%	62%

(1) Excludes contracts which have been executed but are not operational as of the end of the period.

(2) CareUnit is the service mark under which the Registrant markets chemical dependency treatment programs. CarePsychCenter is the service mark under which the Registrant markets psychiatric treatment programs.

(3) During fiscal 1990, CareUnit, Inc. opened one new contract and closed 25 contracts. BMC opened none and closed 3 of its contracts. Of the 25 closed contracts, 13 contracts were terminated by CareUnit, Inc. and 12 were terminated by the contracting hospitals. 31 contracts were included in the sale of CareUnit, Inc.'s interest in the BMC joint venture to Parkside Medical Services Corporation in January 1990.

(4) Average occupancy rate is calculated by dividing total patient days by the number of available bed-days during the relevant period.

Sources of Revenues

Patients are admitted to a behavioral medicine program under the contracting hospital's standard admission policies and procedures. The hospital submits to the patient, the patient's insurance company, or other responsible party, a bill which covers the services of the hospital. The hospital pays CareUnit, Inc. a fixed monthly management fee plus a fee for each patient day of service provided. Fees paid by the hospital are subject to annual adjustments to reflect changes in the Consumer Price Index. CareUnit, Inc. and the hospital share the risk of nonpayment by patients based on a predetermined percentage participation by CareUnit, Inc. in bad debts. CareUnit, Inc. may also participate with a contracting hospital in charity care and certain contractual allowances and discounts. Hospitals contracting for programs generally suffer from the same reimbursement pressures as the Registrant's freestanding facilities. In some instances, contracting hospitals have instituted admissions policies which restrict the ability of CareUnit, Inc. to promote utilization of the programs. Such policies have a negative impact on contract revenues.

Generally, management contracts are entered into for a period of two to five years and thereafter are automatically renewed for successive one-year periods unless either party gives notice of termination at least 90 days prior to the end of such periods. Contracts are also terminable for material defaults. A significant number of contracts are terminable by either party on their anniversary dates.

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Development, Competition and Promotion

CareUnit, Inc. directs its development activities toward increasing the number of management contracts with hospitals. The primary competitors of CareUnit, Inc. are hospitals and hospital management companies which offer programs similar to those offered by CareUnit, Inc.

The significant factors in a hospital's decision to utilize a contract manager include the degree of sophistication of hospital management, financial resources of the hospital, and perceived value of the services to be rendered under contract. Individual contract managers are selected based on experience, reputation for quality programs, availability of program support services and price. While a number of competing companies offer contract programs at prices lower than CareUnit, Inc., it believes that its experience and program support are superior to that of its competitors. CareUnit, Inc. also believes that its experience with CON issues and program implementation often results in a reduced start-up period. Risk to the hospital is also reduced because the fees paid by the hospital to CareUnit, Inc. are primarily based on bed occupancy.

Programs managed by CareUnit, Inc. must meet minimum occupancy levels to be profitable for both the hospital and CareUnit, Inc. The program manager of each unit is responsible for identifying and contacting referral sources, instituting promotional campaigns, obtaining local media coverage relating to behavioral medicine problems and otherwise promoting the unit. The program manager is supported by media advertising including television, radio, and print. CareUnit, Inc. spent approximately $2.1 million on media advertising for the year ended May 31, 1990. Most of these expenditures were for the promotion of chemical dependency services rather than psychiatric services which are driven more by professional referrals.

Comprehensive Medical Rehabilitation

RehabCare develops, markets and manages programs for the delivery of primarily inpatient, comprehensive medical rehabilitation services to functionally disabled persons in dedicated units of acute care hospitals. Comprehensive medical rehabilitation is a health treatment program offered to disabled or impaired persons with the objective of making such persons as functionally independent and self sufficient as possible. Rehabilitation programs are used to treat disabilities or impairments resulting from medical problems such as traumatic brain injuries, strokes, spinal cord injuries, severe fractures, back disorders, arthritis, neurological disorders and amputations. Rehabilitative care emphasizes the treatment of functional limitations and disability in order to maximize the patient's ability to function independently. Although the transition from acute to rehabilitative care is not always precisely demarcated, patients do not enter a rehabilitation program until they are medically stable. RehabCare's responsibility under its contracts is to provide a multidisciplinary team generally consisting of a physician (who serves as the medical director for the rehabilitation program), a program manager, a psychologist, physical and occupational therapists, a speech pathologist, a social worker and other appropriate supporting personnel. In addition, RehabCare provides program implementation and management, treatment team training, staff recruiting, continuing education, insurance, community education, promotion, therapy equipment, public relations and on-going quality assurance.

As the "graying of America" continues, the demand for rehabilitation medical services increases. Elderly persons are the most common users of rehabilitation programs although those suffering from spinal cord injury, traumatic brain injury and industrial accidents are also major consumers of this service.

When a patient is referred to one of RehabCare's programs, he or she undergoes an initial evaluation and assessment process by the entire treatment team that results in the development of a rehabilitation care plan designed specifically for the short- and long-term objectives of that patient up to the date of discharge. Depending upon the patient's disability, this evaluation process may involve the services of at least two disciplines, such as physical therapy and occupational therapy for an injury to an extremity, or of all of the disciplines, as in the case of a severe stroke patient. The following services are typically made available to patients in the rehabilitation programs:

- Inpatient rehabilitation nursing services
- Physical therapy services
- Speech/language pathology services
- Audiological services
- Orthotic/prosthetic services
- Nutritional counseling services
- Psychological services
- Social work services
- Respiratory therapy services
- Occupational therapy services

In addition, educational and psychological services are provided to the families of patients as part of the program.

RehabCare has developed two significant freestanding outpatient programs and several smaller outpatient programs at client hospitals. RehabCare intends to aggressively develop outpatient programs in response to increasing pressure in the health care industry to treat patients in a cost-effective manner.

As of May 31, 1990, RehabCare programs were offered solely in acute care hospitals and skilled nursing facilities under contract. RehabCare opened its first contract program in February 1984. The following table sets forth selected operating data regarding RehabCare programs:

	Years Ended May 31,				
	1990	1989	1988	1987	1986
Number of contracts at end of period (1)	49(2)	47	33	21	15
Available beds at end of period	983	980	682	405	310
Patient days served during period	222,357	170,385	109,940	73,027	33,036
Admissions	9,015	6,907	3,932	2,426	1,394
Average occupied beds per contract	12.3	10.7	11.1	11.9	7.6
Average occupancy rate for period (3)	61%	52%	54%	59%	33%

(1) Excludes contracts which have been executed but are not operational as of the end of the period. Two contracts had been executed but were not operational at May 31, 1990.

(2) During the fiscal year ended May 31, 1990, RehabCare opened 9 new contracts and closed 7 contracts. Of the 7 closed contracts, 5 were terminated by mutual agreement and 2 were terminated by the contracting hospital. Five of these hospitals have continued operating treatment programs, by either operating their own independent program or associating with another contract provider.

(3) Average occupancy rate is calculated by dividing total patient days by the number of available bed-days during the relevant period.

Sources of Revenues

RehabCare's contracts are similar to those of CareUnit, Inc. RehabCare receives a fixed monthly management fee plus a fee for each patient day of service rendered. Fees paid to RehabCare are subject to annual adjustments to reflect changes in the Consumer Price Index. RehabCare also participates with its hospital clients in the risk of non-payment by patients by sharing in bad debts, contractual adjustments and charity allowances.

Both freestanding hospitals and dedicated hospital units performing rehabilitation services that meet certain criteria are exempt from the Medicare program DRG payment system. All of RehabCare programs become exempt from DRGs after a statutory one-year period. The programs, however, are subject to TEFRA limits on lengths of stay. The Registrant does not know whether rehabilitation units will continue to be exempt from DRGs, and the loss of exemption would materially impact RehabCare's business.

Generally, RehabCare's contracts are entered into for a three-year period and thereafter are automatically renewed for successive one-year periods unless either party gives notice of termination at least 90 days prior to the end of such periods. Contracts are also terminable for material defaults. A number of contracts are terminable by either party on their anniversary dates.

Development, Competition and Promotion

RehabCare's development efforts are directed toward increasing the number of management contracts. Site selection for such contract units emphasizes communities where there is a demonstrated need for inpatient rehabilitation programs in quality community hospitals located in moderate to high growth population areas; community pricing standards; and state licensure and CON requirements. RehabCare intends to expand the scope of its activities in the field of rehabilitation services beyond its standard contractual relationship for inpatient programs. RehabCare intends to explore joint venture opportunities in selected markets with its acute care hospital clients to acquire or develop freestanding inpatient and outpatient rehabilitation facilities and to develop sites for delivery of subacute rehabilitation services.

RehabCare competes with other health care management companies for contracts and RehabCare's programs compete for patients with the programs of other hospitals and rehabilitation facilities. The success of RehabCare is dependent on its ability to establish relationships with sources of patient referrals. RehabCare believes that the principal competitive factors in each case are reputation for quality of programs, the effectiveness of program support services and price.

RehabCare believes that hospital discharge planners, physicians, other health care professionals, insurance claims adjusters and case managers representing various other payors are its principal sources of patient referral. Accordingly, RehabCare directs its marketing efforts toward these sources rather than directly to prospective patients. RehabCare relies principally upon aggressive local public relations and marketing activities conducted by its program managers followed by direct mail campaigns to deliver brochures, newsletters and other promotional materials to referral sources. RehabCare also maintains active community relations programs designed to increase local community awareness of the availability of RehabCare's rehabilitation programs at its client hospitals.

OTHER ACTIVITIES

LONG TERM CARE. The Registrant leases and operates a 99-bed intermediate care facility. This facility provides nursing, rehabilitative and sustaining care over extended periods of time to persons who do not require the extensive care provided in a general hospital. For the fiscal year ended May 31, 1990, the intermediate care facility accounted for less than 1% of the Registrant's operating revenues.

PUBLISHING ACTIVITIES. Since 1976, the Registrant (under the name CompCare Publishers) has been engaged in the publication, distribution and sale of books, pamphlets and brochures relating to the Registrant's health care activities. Literature distributed by the Registrant is sold to patients participating in a program both by contracting hospitals and facilities operated by the Registrant. Such literature is also sold to the general public and educational institutions. The Registrant does not own or operate the printing facilities used in the publication of its literature. Publishing activities accounted for approximately 3% of the Registrant's operating revenues in fiscal 1990.

SMOKING CESSATION. In fiscal 1985, the Registrant entered into a license agreement with SmokEnders, Inc. The license agreement granted the Registrant the right to operate smoking cessation seminars using the name and materials of SmokEnders, Inc. The Registrant sold its SmokEnders operation in February 1990 for approximately $309,000.

WEIGHT CONTROL. In fiscal 1986, the Registrant purchased the assets of a weight loss center and subsequently began operation of a weight control program under the name CareFast. In June 1990, the Registrant sold certain assets of CareFast including the service mark "CareFast".

GOVERNMENTAL REGULATION

The development and operation of health care facilities is subject to compliance with various federal, state and local statutes and regulations. Health care facilities operated by the Registrant as well as hospitals under contract with CareUnit, Inc. or RehabCare must comply with the licensing requirements of federal, state and local health agencies, with state mandated rate control initiatives and with the requirements of municipal building codes, health codes and local fire departments. State licensing of facilities is a prerequisite to participation in the Medicare and Medicaid programs.

The laws of various states in which the Registrant operates generally prevent corporations from engaging in the practice of medicine or other professions. Although the Registrant believes that its operations do not violate these prohibitions, recent legal precedents in this area are unclear and there can be no assurance that state authorities or courts will not determine that the Registrant is engaged in unauthorized professional practice. In the event of an unfavorable determination, the Registrant could be required to modify its method of operation or could be restrained from the continuation of certain of its operations, the result of which could be materially adverse to the Registrant.

Under Section 1128A of the Social Security Act, HHS has the authority to impose civil monetary penalties against any participant in the Medicare program that makes claims for payment for services which were not rendered as claimed or were rendered by a person or entity not properly licensed under state law or other false billing practices. Under this law the Secretary of HHS has the authority to impose a penalty of not more than $2,000 for each improperly claimed service and an assessment equal to not more than twice the amount claimed for each service not rendered. The Registrant does not believe that any such claims exist.

Section 1128B of the Social Security Act makes it a felony for a hospital to make false statements relating to claims for payments under the Medicare program, to engage in certain remuneration arrangements with physicians and other health care providers relating to referrals or the purchase of services, or to make false statements relating to compliance with the Medicare conditions of participation. In addition, the making of false claims for payment by providers participating in the Medicare program is subject to criminal penalty under federal laws relating generally to claims for payment made to the federal government or any agency. Courts have construed broadly the provisions of Section 1128B concerning illegal remuneration arrangements and in so doing have created uncertainty as to the legality of numerous types of common business and financial relationships between health care providers and practitioners. Such relationships often are created to respond to competitive pressures. Proposed regulations identifying business practices that do not constitute illegal remuneration do not eliminate this uncertainty, and, if adopted in final form, may cause providers and practitioners alike to abandon certain mutually beneficial relationships. The Registrant does not believe that any such relationships exist.

Pursuant to the Medicare Catastrophic Coverage Act of 1988, the Inspector General of the Department of HHS studied and reported to Congress on physician ownership of hospitals, or compensation from any entity providing items or services to hospitals, to which the physician makes referrals and for which payment may be made under the Medicare program; the ranges of such arrangements and the means by which they are marketed to physicians; the potential of such ownership or compensation to influence the decisions of the physician; and the practical difficulties involved in enforcement actions against such ownership and compensation arrangements that violate

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current anti-kickback laws. In April 1989, the Inspector General issued a report on financial arrangements between physicians and health care businesses. The report contained a number of recommendations, including a prohibition of physician referrals to any facility in which the physician has a financial interest. In addition, legislation has been introduced in Congress to prohibit or restrict such physician referrals. Should such legislation be enacted, certain of the Registrant's relationships with physicians in its contract operations and the Registrant's development of relationships with physicians could be adversely affected.

Insurance codes of certain states specify the extent of coverage required in group insurance contracts with respect to chemical dependency and psychiatric services. The impact of these requirements varies from state to state. To the extent that coverage for chemical dependency or psychiatric services is expanded, the Registrant's business is positively impacted. Such requirements have a negative impact when coverage is reduced or restricted. The Registrant is unable to measure the impact of insurance industry regulation on its business.

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. The Registrant believes that the facilities it owns or leases are in substantial compliance with the various Medicare and Medicaid regulatory requirements applicable to them.

ACCREDITATION

The Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") is an independent commission which conducts voluntary accreditation programs with the goal of improving the quality of care provided in health care facilities. Generally, hospitals including dedicated units, long-term care facilities and certain other health care facilities may apply for JCAHO accreditation. If a hospital under contract with CareUnit, Inc. requests a JCAHO survey of its entire facility, the contract program, if a chemical dependency program, will be separately surveyed. After conducting on-site surveys, JCAHO awards accreditation for up to three years to facilities found to be in substantial compliance with JCAHO standards. Accredited facilities are periodically resurveyed. Loss of JCAHO accreditation could adversely affect the hospital's reputation and its ability to obtain third-party reimbursement. The Registrant believes that all of its freestanding facilities and the hospitals under contract with CareUnit, Inc. have received or, in the case of new facilities, have applied for such accreditation.

RehabCare's programs are or will be reviewed by the Commission on Accreditation of Rehabilitation Facilities ("CARF"), an independent commission which surveys and accredits rehabilitation programs. RehabCare voluntarily seeks accreditation of each of its programs by CARF as soon as feasible (generally after two to three years of operation). As of May 31, 1990, three of RehabCare's programs had received CARF accreditation.

ADMINISTRATION AND EMPLOYEES

The Registrant's executive and administrative offices are located in Chesterfield, Missouri, where management controls operations, business development, legal and accounting, governmental and statistical reporting, research and treatment program evaluation.

At August 31, 1990, the Registrant employed approximately 137 persons in its corporate and administrative offices, 1,623 persons in the freestanding and long-term health care facilities operated by it, 294 persons assigned to CareUnit, Inc., 731 persons assigned to RehabCare and 26 persons in other operations. The physicians and psychiatrists who are the medical directors of the Registrant's contract units, the psychologists serving on treatment teams, and the physicians utilizing the facilities operated by the Registrant are not employed by the Registrant.

The Registrant has not encountered any work stoppages due to labor disputes with its employees.

Item 2. PROPERTIES.

The following table sets forth certain information regarding the properties owned or leased by the Registrant at May 31, 1990:

Name and Location	Owned or Leased(1)	Lease Expires(2)	Monthly Rental(3)
Chemical Dependency Treatment Facilities			
CareUnit Hospital .... Fort Worth, Texas	Owned	--	--
CareUnit Hospital .... Orange, California	Owned	--	--
CareUnit Hospital .... Kirkland, Washington	Leased	2035	$15,300(4)
CareUnit Facility .... Jacksonville Beach, Florida	Owned	--	--
CareUnit Hospital .... Cincinnati, Ohio	Owned	--	--
CareUnit Hospital (5) .... St. Louis, Missouri	Owned	--	--
Starting Point, Oak Avenue .... Orangevale, California	Owned	--	--
Starting Point, Orange County ...... Costa Mesa, California	Owned	--	--
Starting Point, Grand Avenue (6) ..... Sacramento, California	Owned	--	--
CareUnit Hospital .... Albuquerque, New Mexico	Owned(7)	2012	12,965
CareUnit Hospital .... Las Vegas, Nevada	Owned	--	--
CareUnit Facility .... Coral Springs, Florida	Owned	--	--
CareUnit Facility .... Grand Rapids, Michigan	Leased	1990	12,417
CareUnit Facility .... Orlando, Florida	Owned	--	--
CareUnit Facility .... Aurora, Colorado	Owned	--	--
CareUnit Facility (8) .... San Diego, California	Owned	--	--
CareUnit Facility .... Tampa, Florida	Owned	--	--
Psychiatric Treatment Facilities			
Brea Hospital Neuropsychiatric Center (9) Brea, California	Owned	--	--
Crossroads Hospital (10) .... Van Nuys, California	Leased	1997	5,577

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Item 2. PROPERTIES (continued)

Name and Location	Owned or Leased(1)	Lease Expires(2)	Monthly Rental(3)
Woodview-Calabasas Hospital (11) ... Calabasas, California	Leased	1996	$21,401(12)
Other Operating Facilities			
Tustin Manor .... Tustin, California (Intermediate Care Facility)	Leased	1995	16,093(12)
CompCare Publishers .... Minneapolis, Minnesota	Leased	1990	7,347
Administrative Facilities			
Corporate Headquarters .... Chesterfield, Missouri	Leased	1991	25,095
Regional Headquarters .... Irvine, California	Leased	1990	29,860

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(1) Subject to encumbrances. For information concerning the Registrant's long-term debt, see note 11 to the Registrant's consolidated financial statements contained in this report.

(2) Assumes all options to renew will be exercised.

(3) All leases, other than those relating to the Registrant's administrative facilities, are triple net leases under which the Registrant bears all costs of operations, including insurance, taxes and utilities. The Registrant is responsible for specified increases in taxes, assessments and operating costs relating to its administrative facilities.

(4) Subject to increase every three years based upon increases in the Consumer Price Index, not to exceed 10%.

(5) Closed April 1990. The Registrant intends to sell this property.

(6) Closed May 1990. Operations were transferred to the Registrant's Starting Point, Oak Avenue facility. The Registrant has entered into an agreement to sell this property.

(7) Constructed on leased land.

(8) Closed December 1989. The Registrant intends to sell this property.

(9) Sold June 1990.

(10) Leased by a joint venture and managed by the Registrant.

(11) Leased by the Registrant and managed by the Registrant's partner in a joint venture.

(12) Subject to increase every five years based upon increases in the Consumer Price Index.

Item 3. LEGAL PROCEEDINGS.

Litigation Relating to the First Hospital Corporation Transaction

On October 31, 1989, a class action complaint was filed in the United States District Court, Central District of California by Robert Gildon and Barash Goodfriend Friedman Accountancy Corp. Profit Sharing Trust dtd 12/15/83 FBO Edward Friedman on behalf of themselves and all others similarly situated against the Registrant, certain directors of the Registrant and Ronald I. Dozoretz, M.D. (Case No. CV89-6355 (SVW)(EX)). The complaint alleged violations of the securities laws during the course of the Registrant's proposed reorganization with First Hospital Corporation and sought compensatory damages, costs and other relief.

On November 9, 1989, a class action complaint was filed in the United States District Court for the Eastern District of Virginia, Norfolk Division, by George Himler on behalf of himself and all others similarly situated against First Hospital Corporation, Dr. Ronald I. Dozoretz and the Registrant (Case No. 89-763-N). The complaint alleged violations of the securities laws during the course of the Registrant's proposed reorganization with First Hospital Corporation and sought compensatory damages including interest, costs and other relief.

On December 4, 1989, a class action complaint was filed in the United States District Court for the Southern District of New York by Suzanne McGrath, Philip Feldman, Alan Montrose and all others similarly situated against Ronald I. Dozoretz, First Hospital Corporation, and individually certain officers and directors of the Registrant (Case No. 89 CIV. 8003(KTD)). The complaint, as amended, alleged, among other things, violations of the securities laws, common law fraud, breach of contract, intentional interference with prospective business and contractual relations, breach of fiduciary duties, and violations of the Racketeer Influenced and Corrupt Organization Act and sought compensatory damages, punitive damages, costs and other relief.

On March 23, 1990, the plaintiffs in the three above mentioned matters filed a consolidated class action complaint in the United States District Court for the Eastern District of Virginia, Norfolk Division, against First Hospital Corporation, the Registrant, Ronald I. Dozoretz and the directors of the Registrant (Case No. 89-763-N). The complaint alleged violations of the federal securities laws, common law fraud, breach of fiduciary duty, intentional interference with business and contractual relations and intentional interference with prospective business and contractual relations by Dr. Dozoretz and the Registrant's directors and breach of contract. In June 1990, the Registrant and the Registrant's directors entered into an agreement to settle the consolidated stockholder class actions. Under the terms of the agreement, the Registrant agreed to pay $150,000 in cash and to issue 687,500 shares of the Registrant's Common Stock to the plaintiffs and the proposed class. The District Court, which must approve the settlement, has expressed concerns regarding certain terms of the proposed settlement. On August 3, 1990, the District Court denied the plaintiffs' motion for class certification.

On July 2, 1990, the Registrant filed a complaint in the United States District Court for the Southern District of New York against The Bank of Tokyo Trust Company, Sovran Bank, N.A. and First Hospital Corporation (Case No.90 CIV 4387). The complaint alleges, among other things, breaches of contract against all three defendants relating to the reorganization agreement with First Hospital Corporation which the Registrant terminated when Sovran Bank advised First Hospital Corporation that it would not proceed with the financing necessary to fund the proposed reorganization. In accordance with the terms of the reorganization agreement with First Hospital Corporation, the Registrant executed a subordinated promissory note pursuant to which First Hospital Corporation advanced the Registrant $5 million in June 1989. The Registrant believes that the loan from First Hospital Corporation was forgiven on termination of the reorganization agreement pursuant to the terms of the reorganization agreement. However, First Hospital Corporation has advised the Registrant that it disagrees with the Registrant and has demanded repayment of the loan.

Other Litigation

In addition to the foregoing matters, the Registrant is routinely engaged in the defense of lawsuits arising out of the ordinary course and conduct of its business and has insurance policies covering such potential insurable losses where such coverage is cost-effective. Management believes that the outcome of such lawsuits will not have a material adverse impact on the Registrant's business.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Inapplicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a) The Registrant's Common Stock has been traded on the New York Stock Exchange under the symbol CMP since July 18, 1988. Prior to that date the Common Stock was traded on the over-the-counter market and quoted on the NASDAQ National Market System 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 through July 17, 1988 and the high and low sale prices for the Common Stock for the fiscal quarters indicated thereafter. Over-the-counter prices represent inter-dealer prices, without retail markup, markdown or commission and do not necessarily represent actual transactions.

	Price	
Fiscal Year	High	Low
1990:		
First Quarter	$11-3/4	$7-3/8
Second Quarter	9-1/4	2-5/8
Third Quarter	3-5/8	1-3/4
Fourth Quarter	3-1/8	2-1/8
1989:		
First Quarter (through July 17, 1988)	12-1/4	8-7/8
First Quarter (July 18, 1988 through August 31, 1988)	10-3/8	8-1/4
Second Quarter	9-3/8	7-1/2
Third Quarter	12-5/8	7-7/8
Fourth Quarter	13	9

(b) As of August 31, 1990, the Registrant had 2,106 stockholders of record.

(c) The Registrant paid $.10 per share cash dividends on a quarterly basis during the first two quarters of fiscal 1989, or an aggregate of $.20 per share for fiscal 1989. As a result of the Registrant's declining earnings and restrictions contained in the Registrant's loan agreements, no cash dividend was declared for either the third or fourth quarters of fiscal 1989 nor during any quarter of fiscal 1990. The Registrant does not expect to resume payment of cash dividends in the foreseeable future. See Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and note 11 to the consolidated financial statements contained in this report for a description of restrictions on the payment of dividends contained in the Registrant's loan agreements.

Item 6. SELECTED FINANCIAL DATA.

The following tables summarize selected consolidated financial data and should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. The financial data presented herein is not necessarily indicative of the Registrant's future financial condition or results of operations. See Item 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" for a discussion of recent results of operations and liquidity.

	Years Ended May 31,				
	1990	1989	1988	1987	1986
	(Amounts in thousands, except per share data)				
Statement of Operations Data:					
Operating revenues	$143,694	$209,911	$193,573	$173,245	$164,717
Costs and expenses:					
Operating, general and administrative	162,036	189,157	165,126	144,635	134,571
Depreciation and amortization	8,440	8,694	7,757	6,527	5,032
Net loss(gain) on sale/write-down of assets	45,657	(1,363)	--	--	5,701
Other nonrecurring expenses	4,407	1,327	--	--	--
	220,540	197,815	172,883	151,162	145,304
Operating earnings(loss)	(76,846)	12,096	20,690	22,083	19,413
Equity in earnings of unconsolidated joint ventures	231	25	2,137	4,340	5,518
Gain on reorganization agreement	5,000	--	--	--	--
Minority interest in (loss)earnings of consolidated joint ventures	508	(989)	(1,382)	(770)	(404)
Interest income(expense), net	(8,495)	(9,371)	(6,545)	(2,975)	892
Earnings(loss) before income taxes	$(79,602)	$ 1,761	$ 14,900	$ 22,678	$ 25,419
Net earnings(loss)	$(59,308)	$ 502	$ 8,970	$ 12,088	$ 13,102
Earnings(loss) per share	$ (5.83)	$ .05	$ .88	$ .90	$ .87
Cash dividends per share	$ --	$ .20	$ .40	$ .36	$ .32
Weighted average common and common equivalent shares outstanding	10,172	10,186	12,522	15,360	16,987

	Years Ended May 31,				
	1990	1989	1988	1987	1986
	(Dollars in thousands)				
Balance Sheet Data:					
Working capital	$ 49,832	$ 36,448	$ 30,047	$ 34,730	$ 73,855
Total assets	141,592	209,520	228,093	214,611	218,770
Long-term debt	86,564	72,232	102,408	95,609	55,711
Stockholders' equity	20,214	79,194	81,470	85,369	132,180

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

As a result of the changing configuration of the mix of the Registrant's business in fiscal 1990 within freestanding facilities and behavioral medicine contracts, management believes that a presentation which compares results of operations for those facilities and contracts which were operational for the entirety of the past two fiscal years provides a more meaningful analysis.

__Results of Operations - Fiscal 1990 (compared with Fiscal 1989)__

The Registrant reported a loss of approximately $59 million, or $5.83 per share, for the fiscal year ended May 31, 1990, including a fourth quarter loss of approximately $30 million or $2.96 per share. Results were primarily impacted by pretax charges of approximately $46 million for fiscal 1990 and $26 million for the fourth quarter associated with the write-down of the carrying value of certain underperforming assets that the Registrant has sold or designated for disposition and by continuing poor utilization of the Registrant's freestanding facilities and behavioral medicine contracts. The Registrant recorded a gain of $5 million relating to the termination of the reorganization agreement with First Hospital Corporation. The Registrant also incurred approximately $4.4 million of nonrecurring expenses in fiscal 1990, consisting of $2.8 million of reorganization costs and $1.6 million of loan restructuring costs. In fiscal 1989, the Registrant incurred $1.3 million of reorganization costs.

Operating, general and administrative expenses decreased approximately 14% in fiscal 1990. Lower operating levels at the freestanding facilities and the sale of BMC were the principal factors in the decrease.

Depreciation and amortization decreased by approximately 3% principally as a result of the sale or closure of two freestanding chemical dependency facilities in fiscal 1989, closure of two additional facilities and sale of the former corporate headquarters in fiscal 1990 and the lack of any new openings of operating facilities during fiscal 1990. Interest expense decreased by 5% principally as a result of an increase in capitalized interest. Capitalized interest on construction projects, which offsets interest expense, increased from approximately $158,000 to $1.1 million due to construction of a 151-bed replacement facility for the Brea Hospital Neuropsychiatric Center. The Registrant's total borrowings were approximately $88 million at May 31, 1990 compared to approximately $96 million at May 31, 1989. During the year, the Registrant utilized the proceeds from the sale of certain assets to reduce its outstanding indebtedness.

The Registrant's effective tax rate decreased from approximately 71% in fiscal 1989 to 25% in fiscal 1990 principally as a result of non-deductible costs associated with the terminated reorganization with First Hospital Corporation in fiscal 1989 and in connection primarily with non-deductible costs associated with losses on sale/write-down of assets in fiscal 1990.

In December 1987, the Financial Accounting Standards Board issued Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("SFAS 96"). This accounting standard significantly changes the methodology used to calculate and report income taxes for financial statement purposes. The Registrant is required to adopt SFAS 96 by no later than fiscal 1993, although earlier adoption is optional. The Registrant has not determined when it will adopt SFAS 96.

Freestanding Operations

Admissions in fiscal 1990 declined overall by 9,800 to 13,300 from 23,100 in fiscal 1989, an overall decline of 42%. Of this decline, 4,300 fewer admissions were attributable to facilities which were closed or under contract to be sold as of May 31, 1990, which was a decline of 60% for those facilities. The remaining facilities ("same store") experienced a 34% decline in admissions and a 9% decline in length of stay to 16.7 days, resulting in 39% fewer patient days than the prior fiscal year. The following table sets forth selected quarterly utilization data on a "same store" basis:

Same Store Utilization

	Fiscal 1990				Fiscal 1989			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Admissions	2,490	2,447	2,575	3,040	3,768	3,989	4,156	4,119
Average length of stay	16.2	16.8	16.6	17.2	17.8	18.8	18.4	18.4
Patient days	42,563	40,708	44,880	55,371	70,703	74,026	78,540	76,370
Average occupancy rate	37%	36%	38%	47%	61%	63%	68%	69%

Since overall net revenue per patient day increased by 8% to $320 in fiscal 1990 from fiscal 1989 and overall patient days declined 47% to 242,000, the resulting decline of approximately $57 million, or 44%, in operating revenues at the Registrant's freestanding facilities is attributed entirely to the decline in utilization, primarily from reduced admissions and secondarily from shorter average lengths of stay. The Registrant believes that the community and employee uncertainty created by the proposed reorganization with First Hospital Corporation, the increasing role of HMOs, reduced benefits from employers and indemnity companies, a greater number of competitive beds and a shifting to outpatient programs are responsible for this decline in utilization. In response to these factors the Registrant has accelerated the development of effective, lower cost outpatient and daycare programs in conjunction with its freestanding facilities and has shifted its marketing activities toward developing relationships and contracts with managed care and other organizations which pay for or broker such services.

The following table illustrates that revenues in outpatient and daycare programs offered by the freestanding facilities on a "same store" basis have been steadily increasing:

Gross Outpatient/Daycare Revenues
(Dollars in thousands)

	Fiscal 1990				Fiscal 1989			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Facilities offering	15	14	12	11	9	8	8	8
Gross outpatient/daycare revenues	$1,951	$1,246	$1,168	$1,204	$922	$859	$576	$548
% of total "same store" gross operating revenues	9%	6%	5%	4%	3%	2%	1%	2%

Although operating expenses at the Registrant's freestanding facilities decreased $20 million, this decrease was not sufficient to offset the related decline in revenues. Consequently, operating losses of facilities closed or sold were $8 million compared to operating income of $4 million in fiscal 1989, and "same store" operating losses were $11 million in fiscal 1990 versus operating income of $14 million in the prior year.

In response to these continuing losses, the Registrant has taken steps to bring expenses in line with revenues by reducing staff and media advertising expenses. If utilization at particular facilities continues to deteriorate such that anticipated reductions in operating losses are not achieved, those facilities will be considered for closure and disposition. The Registrant recorded approximately $40.8 million in asset write-downs during fiscal 1990 in connection with the recognition of losses on facilities sold and revaluation of facilities designated for disposition. This amount includes the estimated future operating losses and carrying costs of such facilities until disposition at an assumed future point in time. To the extent that actual costs and time required to dispose of the facilities differ from these estimates, adjustments to the amount written-down may be required. Future operating losses and carrying costs of such facilities will be treated as discontinued operations and charged back directly to the carrying value of the respective assets held for sale. Because chemical dependency treatment facilities are special purpose structures, their resale value is negatively affected by the oversupply of beds resulting from the diminished demand for inpatient treatment currently being experienced throughout the industry. In fiscal 1990, the Registrant closed three facilities, two of which have been listed for sale and the third is under contract for sale. Additionally, in May 1990, the Registrant entered into an agreement for the sale of an operating facility, which was consummated in June 1990. The Registrant has also designated another eight of its remaining sixteen operating facilities for disposition. These facilities have been designated for disposition because of their weak market positions relative to competitors and limited prospects for generating an acceptable return on investment as an operating property. The Registrant will continue to evaluate the performance of all of these facilities in their respective markets, and, if circumstances warrant, may reduce the number of facilities designated for disposition.

Behavioral Medicine Contracts

During fiscal 1990, patient days of service at CareUnit, Inc. contracts declined by approximately 42% from 617,862 patient days to 358,000 patient days. Of this decline, 131,000 patient days related to the sale of its 70% joint venture interest in Behavioral Medical Care ("BMC"), which had operated 31 contracts. An additional net 91,000 patient days of the decline were associated with unit closures net of unit openings during fiscal years 1989 and 1990. Specifically, one new unit was opened in fiscal 1990 and twenty-five were closed. Of the units closed, thirteen contracts were terminated by CareUnit, Inc. for either poor operating performance or failure on the part of the contracting hospital with respect to certain contractual obligations. The remaining twelve closures were terminated by the contracting hospitals upon expiration of their term. The Registrant believes that these non-renewals were influenced primarily by the uncertainties associated with the proposed and subsequently terminated reorganization.

Units which were operational for both fiscal years experienced a 13% decline in utilization to 222,000 patient days. Since average net revenue per patient day at these units was essentially unchanged from the prior year, net operating revenues also declined by 13% to $16 million. An additional $1 million of net operating revenues was associated with units opened during the past two years, $6 million pertained to BMC, and $3 million was generated by units closed during the fiscal year. Outpatient revenues increased 38% from $538,000 in fiscal 1989 to $742,000 in fiscal 1990.

Operating expenses at units operational for both fiscal years increased 3%, which, combined with the 13% decline in operating revenues, caused operating income at the unit level to decline 43%, or $3 million, from fiscal 1989. Of the remaining decline in fiscal 1990 unit operating income, $4 million was attributable to BMC and $1 million was associated with units closed during the year. Consequently, unit operating income overall declined to $4 million in fiscal 1990 from $12 million in fiscal 1989.

During early fiscal 1990, development of new contracts diminished as a consequence of business development staff turnover following the announcement of the proposed reorganization with First Hospital Corporation. Subsequent to the termination of the proposed reorganization, all new business development activities were suspended pending resolution of the Registrant's negotiations with its senior secured lenders. In January 1990, development activities were resumed, however it is not anticipated that any new unit openings will occur prior to the third quarter of fiscal 1991.

RehabCare Contracts

Net operating revenue associated with RehabCare contracts during fiscal 1990 increased 37% to $33 million from $24 million in the previous year. Twenty-six established units accounted for $6 million of the increase. An additional $3 million in fiscal 1990 net operating revenues was generated by twenty-three units opened and thirteen units closed during the fiscal years 1989 and 1990. Although net revenue per patient day increased over 3% from the prior fiscal year, increased utilization of 33% accounted for substantially all of the increase in revenue. Operating expenses at the unit level increased $6 million in response to the increased utilization, reflecting operating efficiencies associated with higher census levels. In fiscal 1990, new contract development activity was substantially diminished in response to the terminated reorganization. During fiscal 1991, all existing units opened in the previous two fiscal years will have completed their initial twelve months of start-up and transitioned to what is typically a profitable mode. Although development efforts have been renewed, extensive lead times associated with the development and opening of new units should cause related start-up costs and first-year operating losses to be limited. Consequently, RehabCare expects to have continued growth in net operating revenues and profitability as the mix of mature units relative to new units continues to increase.

Results of Operations - Fiscal 1989 (compared with Fiscal 1988)

The Registrant reported earnings of $502,000, or $.05 per share, for the fiscal year ended May 31, 1989, including a fourth quarter loss of approximately $5 million, or $.50 per share. Results for the quarter were primarily impacted by poor utilization of the Registrant's freestanding facilities and behavioral medicine contracts, by costs of approximately $1.3 million associated with the proposed reorganization and by asset write-downs of approximately $2.4 million (pre-tax). Management attributes some of the decline in utilization to the emphasis on stricter admission policies at certain facilities and increased pressure by third-party payors on length of stay and reimbursement. Management also believes that community and employee uncertainty regarding the proposed reorganization further contributed to the decline.

Operating revenues increased approximately 8% over fiscal 1988. Overall utilization of the Registrant's freestanding facilities increased by 3% while utilization of behavioral medicine contracts declined by approximately 20%. Patient days of service rendered by RehabCare increased by approximately 55%. Utilization of the Registrant's freestanding facilities and behavioral medicine contracts was particularly disappointing during the fourth quarter of fiscal 1989. Management believes that the decline was partially attributable to its February 9, 1989 public announcement that the Registrant had engaged Prudential Bache Capital Funding as its financial advisor and formed a Special Committee to evaluate the Registrant's financial alternatives and the subsequent announcement on April 26, 1989 of the proposed reorganization. Patient days of service rendered in mature freestanding facilities (excluding closed units) were comparable to those in fiscal 1988. Three new chemical dependency facilities and one new psychiatric facility, all opened since February 1988, accounted for approximately 54,000 patient days of service in fiscal 1989, leading to the overall increase in freestanding patient days of service.

Operating revenues from freestanding facilities increased by approximately 15% in fiscal 1989. Revenues from three new chemical dependency facilities opened since February 1988, net of the loss in revenues from closed facilities, accounted for approximately 40% of this increase. Rate increases and changes in payor mix accounted for the remainder. Revenues of freestanding facilities were adversely affected by continuing increases in deductions from revenues, which, as a percentage of gross revenues, increased by approximately 6% in fiscal 1989. As a result of the factors above, the majority of the Registrant's freestanding facilities recorded lower profits in fiscal 1989 when compared to fiscal 1988.

In September 1988, the Registrant sold the property where it had previously operated CareUnit Behavioral Center of Los Angeles and, in January 1989, sold CareUnit of DuPage, a 120-bed chemical dependency treatment facility located in a suburb of Chicago, Illinois. During fiscal 1989, CareUnit of DuPage generated 10,833 patient days of service, operating revenues of approximately $3.5 million and incurred a nominal loss. During fiscal 1988, CareUnit of DuPage generated 11,969 patient days of service, operating revenues of approximately $3.4 million, and incurred a loss of approximately $1.1 million. In addition, in December 1988, a joint venture in which the Registrant has a 50% interest sold Golden Valley Health Center, a 377-bed behavioral medicine facility located in a suburb of Minneapolis, Minnesota. Golden Valley Health Center generated 31,249 patient days of service in fiscal 1989 and the Registrant recorded its equity interest in the earnings of Golden Valley Health Center in the amount of approximately $100,000. In fiscal 1988, Golden Valley Health Center generated 48,877 patient days of service and the Registrant recorded its equity interest in the earnings of Golden Valley Health Center in the amount of approximately $128,000.

During the fourth quarter of fiscal 1989, the Registrant recorded a write-down of approximately $2 million (pre-tax) to adjust the book value to the estimated amount realizable from the intended sale of its corporate headquarters building in Irvine, California and a write-down of approximately $400,000 (pre-tax) of its book value to the estimated market value of its unimproved land in Miami, Florida.

For fiscal 1989, BMC generated revenues of $14.7 million and earnings before taxes on income of approximately $3.3 million, of which the Registrant's share is 70%. At May 31, 1989, BMC operated 38 contracts totalling 900 available beds.

Revenues from RehabCare increased by approximately 50% as a result of an increase in the number of units in operation from 35 to 47 and an increase in the number of patient days of service of approximately 55%. Earnings from RehabCare increased significantly as a number of units opened in the preceeding two years reached maturity. RehabCare units typically incur significant start-up losses during the first year of operation principally as a result of low utilization during the Medicare non-exempt first year. These losses are generally reversed in the second year of operation of the RehabCare unit.

Operating, general and administrative expenses increased approximately 15% in fiscal 1989. The opening of two new freestanding facilities in February 1988 and one in June 1988, the expansion of RehabCare's business and increased costs in mature freestanding facilities were principal factors in the increase.

Depreciation and amortization increased by approximately 12% principally as a result of the opening of two freestanding chemical dependency facilities. Interest expense increased by 43% principally as a result of an increase in the average outstanding indebtedness during the year and an increase in interest rates. Capitalized interest on construction projects, which offsets interest expense, decreased from approximately $1.2 million to $158,000 due to decreased construction activities. The Registrant's total borrowings were approximately $96 million at May 31, 1989 compared to approximately $111 million at May 31, 1988. During the year, the Registrant utilized the proceeds from the sale of certain freestanding facilities to reduce its outstanding indebtedness.

Operating earnings and earnings before taxes on income decreased by approximately $8.6 million and $13.1 million, respectively. The Registrant's effective tax rate increased from approximately 40% in fiscal 1988 to 71% in fiscal 1989 principally as a result of non-deductible costs associated with the proposed reorganization with First Hospital Corporation.

<u>Liquidity and Capital Resources</u>

At May 31, 1990, the Registrant had contractual commitments for completion of construction of the Brea Hospital Neuropsychiatric Center in the amount of approximately $1.8 million. The hospital was completed and sold in June 1990. The Registrant has no other construction projects under development. The Registrant has budgeted approximately $1.3 million for total capital expenditures in connection with its remaining operating facilities in fiscal 1991.

The Registrant's current assets at May 31, 1990 amounted to approximately $78 million and current liabilities were approximately $28 million, resulting in working capital of approximately $50 million and a current ratio of 2.8 to 1. The Registrant's primary use of working capital is to fund operating losses while it seeks to reduce overhead, restore profitability to certain of its freestanding facilities and dispose of the remainder. Proceeds from any such dispositions will be used to repay the Registrant's senior secured debt, which totaled approximately $40 million at May 31, 1990. The Registrant anticipates that, subject to the issues described below, with current cash on hand, accounts receivable and income tax refunds it will be able to fund its expected operating losses and capital needs through fiscal 1991.

Working capital at May 31, 1990 includes $16.4 million of expected income tax refunds, $12.3 million of which the Registrant received in August 1990. Under the terms of the Registrant's agreements with its senior secured lenders, these refunds are required to be delivered to and held as cash collateral by such lenders until withdrawn by the Registrant to meet its obligations in the ordinary course of business. In the event of a default under the agreements, the lenders have the right to terminate the Registrant's access to proceeds from the cash collateral accounts, to apply any balances in the accounts and any future income tax refunds to repayment of the senior secured debt and to accelerate the maturity of outstanding indebtedness. Such events of defaults include, as defined, a "change in control" and a failure to maintain a net worth, exclusive of additional asset writedowns subsequent to May 31, 1990, of at least $5 million. On August 20, 1990, six of the Registrant's Board of Directors were replaced pursuant to the outcome of a consent solicitation The Registrant and its counsel are of the opinion that such replacement does not constitute a change in control. The Registrant has continued to experience substantial operating losses in fiscal 1991. If such losses continue, the Registrant's net worth, as defined, could fall below $5 million. If these or any other events of default should occur and not be waived by the senior secured lenders, the Registrant's working capital would be materially adversely affected.

All benefits from recoverable Federal income taxes paid in prior years (tax carrybacks) have been recognized as of May 31, 1990. No further tax carrybacks are available.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

Years Ended May 31, 1990, 1989 and 1988

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors
Comprehensive Care Corporation:

We have audited the accompanying consolidated financial statements of Comprehensive Care Corporation and subsidiaries (the Company) as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Comprehensive Care Corporation and subsidiaries at May 31, 1990 and 1989, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 1990, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in note 16 to the consolidated financial statements, the Company is currently undergoing a payroll tax audit by the Internal Revenue Service for calendar years 1983 through 1988. The IRS agent conducting the audit has verbally asserted that certain physicians and psychologists engaged as independent contractors by the Company should have been treated as employees for payroll tax purposes. The ultimate outcome of this matter cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution of this matter has been recognized in the accompanying consolidated financial statements.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the consolidated financial statements, the Company incurred significant losses from operations in fiscal 1990 and expects to incur losses and negative cash flow from operations during fiscal 1991. The potential need for additional financing to repay debt as it comes due and finance the Company's anticipated losses from operations and negative cash flow during fiscal 1991 raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

KPMG Peat Marwick
KPMG Peat Marwick

St. Louis, Missouri
July 27, 1990

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	May 31, 1990	May 31, 1989
ASSETS	(Dollars in thousands)	
Current assets:		
Cash	$ 3,884	$ 7,641
Accounts and notes receivable, less allowance for doubtful accounts of $10,455 and $16,355	33,015	55,403
Refundable income taxes	16,400	--
Prepaid and deferred income taxes	--	2,458
Property and equipment held for sale	20,909	12,969
Other current assets	3,563	5,766
Total current assets	77,771	84,237
Property and equipment, at cost	41,901	124,154
Less accumulated depreciation and amortization	(8,801)	(27,081)
Net property and equipment	33,100	97,073
Investment in unconsolidated joint ventures	4,449	5,586
Property and equipment held for sale	16,248	--
Other assets	10,024	22,624
Total assets	$141,592	$209,520

LIABILITIES AND STOCKHOLDERS' EQUITY

	1990	1989
Current liabilities:		
Accounts payable and accrued liabilities	$ 26,598	$ 23,602
Current maturities of long-term debt	1,089	24,187
Income taxes payable	252	--
Total current liabilities	27,939	47,789
Long-term debt, excluding current maturities	86,564	72,232
Deferred income taxes	--	1,122
Other liabilities	6,875	5,844
Minority interest in consolidated joint venture	--	3,339
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.10 par value; authorized 30,000,000 shares; issued 15,253,663 and 15,213,467 shares	1,525	1,521
Additional paid-in capital	76,459	76,135
Retained earnings	5,066	64,374
Less treasury stock; at cost, 5,080,000 shares	(62,836)	(62,836)
Total stockholders' equity	20,214	79,194
Total liabilities and stockholders' equity	$141,592	$209,520

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

	Years Ended May 31,		
	1990	1989	1988
	(Dollars in thousands, except per share amounts)		
Operating revenues	$143,694	$209,911	$193,573
Costs and expenses:			
Operating	100,437	127,025	117,089
General and administrative	61,599	62,132	48,037
Depreciation and amortization	8,440	8,694	7,757
Net loss(gain) on sale/write-down of assets	45,657	(1,363)	--
Other nonrecurring expenses	4,407	1,327	--
	220,540	197,815	172,883
Operating earnings(loss)	(76,846)	12,096	20,690
Equity in earnings of unconsolidated joint ventures	231	25	2,137
Gain on reorganization agreement	5,000	--	--
Minority interest in loss(earnings) of consolidated joint ventures	508	(989)	(1,382)
Interest income	1,093	747	657
Interest expense	(9,588)	(10,118)	(7,202)
Earnings(loss) before income taxes	(79,602)	1,761	14,900
Provision(benefit) for income taxes	(20,294)	1,259	5,930
Net earnings(loss)	$(59,308)	$502	$8,970
Earnings(loss) per share	$(5.83)	$0.05	$0.88
Dividends per share	$ --	$0.20	$0.40

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional		Treasury Stock		Total
			Paid-In	Retained			Stockholders'
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity
			(Amounts in thousands)				
Balance, May 31, 1987	15,182	$1,518	$75,885	$62,190	(4,080)	$(54,224)	$85,369
Net earnings	--	--	--	8,970	--	--	8,970
Cash dividends	--	--	--	(4,257)	--	--	(4,257)
Purchase of treasury stock .	--	--	--	--	(1,000)	(8,612)	(8,612)
Balance, May 31, 1988	15,182	1,518	75,885	66,903	(5,080)	(62,836)	81,470
Net earnings	--	--	--	502	--	--	502
Exercise of stock options .	31	3	250	--	--	--	253
Cash dividends	--	--	--	(3,031)	--	--	(3,031)
Balance, May 31, 1989	15,213	1,521	76,135	64,374	(5,080)	(62,836)	79,194
Net loss	--	--	--	(59,308)	--	--	(59,308)
Exercise of stock options .	41	4	324	--	--	--	328
Balance, May 31, 1990	15,254	$1,525	$76,459	$ 5,066	(5,080)	$(62,836)	$20,214

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Years Ended May 31,		
	1990	1989	1988
	(Dollars in thousands)		
Cash flows from operating activities:			
Net earnings(loss)	$(59,308)	$ 502	$ 8,970
Adjustments to reconcile net earnings(loss) to net cash provided by(used in) operating activities:			
Depreciation and amortization	8,440	8,694	7,757
Provision for losses on accounts receivable	19,541	37,627	22,701
Loss(gain) on sale/write-down of assets	45,657	(1,363)	--
Increase in refundable income taxes	(16,400)	--	--
Decrease(increase) in accounts and notes receivable	2,847	(41,944)	(23,960)
Increase in accounts payable and accrued liabilities	2,996	2,698	852
Decrease(increase) in prepaid and deferred income taxes	1,336	(10,163)	1,701
Equity in earnings of unconsolidated joint ventures	(231)	(25)	(2,137)
Other, net	(1,064)	392	272
Net cash provided by(used in) operating activities	3,814	(3,582)	11,156
Cash flows from investing activities:			
Proceeds from sale of property and equipment	13,064	23,661	256
Additions to property and equipment	(13,565)	(5,351)	(18,017)
Sale of annuity and insurance policies	--	3,706	3,521
Proceeds from notes receivable	--	808	1,668
Long-term loans made	--	(953)	(371)
Distribution from joint ventures	1,368	2,089	4,182
Other, net	--	(3,235)	(4,009)
	867	20,725	(12,770)
Cash flows from financing activities:			
Bank and other borrowings	5,000	27,000	20,000
Dividends paid	--	(3,031)	(4,257)
Repayment of debt	(13,766)	(41,280)	(5,842)
Purchase of treasury stock	--	--	(8,612)
Other, net	328	142	(95)
	(8,438)	(17,169)	1,194
Net decrease in cash	(3,757)	(26)	(420)
Cash at beginning of year	7,641	7,667	8,087
Cash at end of year	$ 3,884	$ 7,641	$ 7,667
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 9,343	$ 9,658	$ 7,756
Income taxes	1,087	9,259	4,053

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
May 31, 1990, 1989 and 1988

Note 1-- Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of Comprehensive Care Corporation (the "Registrant"), its subsidiaries, and its 70%-owned joint venture partnership, Behavioral Medical Care ("BMC"). All intercompany accounts and transactions have been eliminated in consolidation.

The Registrant's consolidated financial statements are presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The continuation of the Registrant's business is dependent upon the resolution of operating and short-term liquidity problems (see note 2--"Operating Losses and Liquidity").

Revenue Recognition

Approximately 88% of the Registrant's operating revenues are received from private sources; the remainder from Medicare, Medicaid and other governmental programs. The latter are programs which provide for payments at rates generally less than established billing rates. Payments are subject to audit by intermediaries administering these programs. Revenues from these programs are recorded under reimbursement principles applicable under the circumstances. Although management believes estimated provisions currently recorded properly reflect these revenues, any differences between final settlement and these estimated provisions are reflected in operating revenues in the year finalized.

Property 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.

Property and Equipment Held for Sale

Property and equipment held for sale represents net assets of certain freestanding facilities and other assets that the Registrant intends to sell and is carried at estimated net realizable value. Net realizable value has been reduced by the estimated operating and selling costs of these facilities through their expected disposal dates. Property and equipment held for sale which are expected to be sold in the next fiscal year are shown as current assets on the consolidated balance sheets.

Intangible Assets

Intangible assets include costs in excess of fair value of net assets of businesses purchased (goodwill), licenses, and similar rights. Costs in excess of net assets purchased are amortized over 25 to 40 years. The costs of other intangible assets are amortized over the period of benefit. The amounts on the consolidated balance sheets are net of accumulated amortization of $1,758,000 and $2,646,000 at May 31, 1990 and 1989, respectively.

Capitalized Interest

Interest incurred during the construction of freestanding facilities is capitalized and subsequently charged to depreciation expense over the life of the related asset. The interest rate utilized is either the rate of the specific borrowing associated with the project or the Registrant's average interest rate on borrowing when there is no specific borrowing associated with the project. The amount of interest capitalized was $1,087,000, $158,000 and $1,202,000 for the years ended May 31, 1990, 1989 and 1988, respectively.

Note 1-- Summary of Significant Accounting Policies (continued)

Deferred Contract Costs

The Registrant has entered into a limited number of contracts with independent general hospitals whereby it will provide services over a period in excess of the standard agreement. In recognition of the hospitals' long-term commitment, the Registrant has paid certain amounts to them. These amounts may be used by the hospital for capital improvements or as otherwise determined by the hospital. The Registrant is entitled to a pro rata refund in the event that the hospital terminates the contract before its scheduled termination date; accordingly, these amounts are charged to expence over the life of the contract.

Cash and Cash Equivalents

Cash in excess of daily requirements is invested in short-term investments with maturities of three months or less. Such investments are deemed to be cash equivalents for purposes of the consolidated statements of cash flows. Included in cash are short-term investments of $1,966,000 and $4,200,000 at May 31, 1990 and 1989, respectively.

Income Taxes

Deferred income taxes are recognized for differences in the recognition of revenue and expense items that are reported in different years for financial reporting purposes and income tax purposes using the tax rate applicable to the year of calculation. Under the deferred method, deferred taxes are not adjusted for subsequent changes in tax rates.

In December 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes" ("SFAS 96"). This statement requires the use of the asset and liability method, whereby deferred income taxes are recognized for the tax consequences of "temporary differences" by applying the enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under SFAS 96, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. SFAS 96 may be implemented prospectively or retroactively. The Financial Accounting Standards Board has delayed the required implementation of SFAS 96 until not earlier than fiscal 1993. The Registrant has not determined when it will adopt SFAS 96.

Earnings Per Share

Primary and fully diluted earnings per common and common equivalent share have been computed by dividing net earnings(loss), after giving effect to the elimination of interest expense applicable to the convertible debentures less income tax effect, by the weighted average number of common and common equivalent shares outstanding during the period. In fiscal 1988, the weighted average of the number of shares issuable on conversion of the convertible debentures and exercise of stock options was added to the weighted average number of common shares outstanding. During fiscal 1990 and 1989, the convertible debentures had an antidilutive impact on earnings per share and accordingly were excluded from the computation.

The weighted average number of shares used to calculate earnings(loss) per share was 10,172,000, 10,186,000 and 12,522,000 for the years ended May 31, 1990, 1989 and 1988, respectively.

Reclassifications

Certain 1989 and 1988 amounts have been reclassified to conform to the 1990 presentation.

Note 2-- Operating Losses and Liquidity

The Registrant incurred losses before income taxes totaling approximately $79.6 million for the year ended May 31, 1990. Of these losses, approximately $4.4 million represents nonrecurring expenses primarily related to legal, investment banking and other expenses associated with the Registrant's proposed reorganization ($2.8 million) and fees and other costs associated with the restructuring of the Registrant's senior secured debt ($1.6 million). The Registrant's loss on operations for the year ended May 31, 1990 was principally a result of poor utilization of its freestanding facilities and behavioral medicine contracts.

In response to these continuing losses, the Registrant has taken steps to bring expenses in line with revenues by reducing staff and media advertising expenses. If utilization at particular facilities continues to deteriorate such that anticipated reductions in operating losses are not achieved, those facilities will be considered for closure and disposition. The Registrant recorded approximately $40.8 million in asset write-downs during fiscal 1990 in connection with the recognition of losses on facilities sold and revaluation of facilities designated for disposition. This amount includes the estimated future operating losses and carrying costs of such facilities until disposition at an assumed future point in time. To the extent that actual costs and time required to dispose of the facilities differ from these estimates, adjustments to the amount written-down may be required. Future operating losses and carrying costs of such facilities will be treated as discontinued operations and charged back directly to the carrying value of the respective assets held for sale. Because chemical dependency treatment facilities are special purpose structures, their resale value is negatively affected by the oversupply of beds resulting from the diminished demand for inpatient treatment currently being experienced throughout the industry. In fiscal 1990, the Registrant closed three facilities, two of which have been listed for sale and the third is under contract for sale. Additionally, in May 1990, the Registrant entered into an agreement for the sale of an operating facility, which was consummated in June 1990. The Registrant has also designated another eight of its remaining sixteen operating facilities for disposition. These facilities have been designated for disposition because of their weak market positions relative to competitors and limited prospects for generating an acceptable return on investment as an operating property. The Registrant will continue to evaluate the performance of all of these facilities in their respective markets, and, if circumstances warrant, may reduce the number of facilities designated for disposition.

The Registrant's current assets at May 31, 1990 amounted to approximately $78 million and its current liabilities were approximately $28 million, resulting in working capital of approximately $50 million and a current ratio of 2.8 to 1. Working capital at May 31, 1990 includes $16.4 million of expected income tax refunds, $12.3 million of which the Registrant received in August 1990. Under the terms of the agreements with its senior secured lenders, these refunds are required to be delivered to and held as cash collateral by such lenders until withdrawn by the Registrant to meet its obligations in the ordinary course of business. In the event of a default under the agreements, the lenders have the right to terminate the Registrant's right to withdraw proceeds from the cash collateral accounts and to apply any balances in the accounts and any future income tax refunds to repayment of the senior secured debt. The Registrant's primary use of working capital is to fund operating losses while it seeks to reduce overhead, restore profitability to certain of its freestanding facilities and dispose of the remainder. Proceeds from any such dispositions will be used to repay the Registrant's senior secured debt. See note 11-- Long-Term Debt.

Note 3-- Acquisitions and Dispositions

In June 1988, the Sutter Center for Psychiatry, a 69-bed psychiatric hospital, opened in Sacramento, California. The facility was owned by a joint venture between BMC and Sutter Community Hospitals. BMC owned a 49% interest in the joint venture. The Registrant owned a 70% interest in BMC. In December 1989, BMC sold its interest in the Sutter-BMC joint venture, and in January 1990, a subsidiary of the Registrant sold its interest in BMC.

Note 3-- Acquisitions and Dispositions (continued)

In September 1988, the Registrant sold its CareUnit Behavioral Center of Los Angeles facility which it had closed in May 1988. In December 1988, Golden Valley Health Center, a behavioral medicine facility located in Minneapolis, Minnesota was sold to a group of investors led by facility management. This facility was owned by a joint venture in which the Registrant has a 50% interest. In January 1989, a subsidiary of the Registrant sold CareUnit of DuPage, a chemical dependency treatment facility located in a suburb of Chicago. The Registrant utilized the net proceeds of sale of these facilities to reduce its senior secured debt.

In fiscal 1990, the Registrant sold its former corporate headquarters building in Irvine, California and certain unimproved land in Miami, Florida. These assets were recorded at their net realizable value at May 31, 1989 of approximately $13 million. The aggregate losses recorded in connection with the write-down and subsequent sales of these assets were approximately $3.8 million in fiscal 1990 and $2.4 million in fiscal 1989 and are included in net loss(gain) on sale/write-down of assets in the consolidated statements of operations for those years respectively. The Registrant utilized the net proceeds of sale of these assets to reduce its senior secured debt.

In June 1990, the Registrant sold one of its freestanding facilities in California for approximately $12 million. The loss on the sale of this facility, totaling approximately $8.2 million, is included in net loss(gain) on sale/write-down of assets in the consolidated statements of operations for the year ended May 31, 1990. The Registrant utilized the net proceeds of sale of this facility to reduce its senior secured debt.

Note 4-- Proposed Reorganization

In fiscal 1989, the Registrant entered into a proposed reorganization with First Hospital Corporation ("First Hospital") whereby the Registrant's business and operations were to be reorganized and combined with those of First Hospital into a combined business enterprise. In fiscal 1990, the proposed reorganization with First Hospital was terminated. The Registrant incurred approximately $2.8 million and $1.3 million for the years ended May 31, 1990 and 1989, respectively, in costs associated with the terminated reorganization. In accordance with the proposed reorganization, First Hospital advanced the Registrant $5 million to be used for working capital. In accordance with the terms of the reorganization agreement, upon termination of the agreement the $5 million was no longer repayable to First Hospital. Accordingly, the Registrant recorded a $5 million gain on reorganization which is reflected in the consolidated statements of operations for the year ended May 31, 1990.

Note 5-- Accounts and Notes Receivable

Accounts and notes receivable include current notes receivable of $933,000 and $291,000 at May 31, 1990 and 1989, respectively. The following table summarizes changes in the Registrant's allowance for doubtful accounts for the years ended May 31, 1990, 1989 and 1988:

		Additions		Deductions	
	Balance at Beginning of Period	Charged to Revenues	Recoveries	Write-off of Accounts	Balance at End of Period
		(Dollars in thousands)			
Year ended May 31, 1990	$16,355	$19,541	$4,149	$29,590	$10,455
Year ended May 31, 1989	14,416	37,627	3,620	39,308	16,355
Year ended May 31, 1988	9,842	22,701	3,802	21,929	14,416

Note 6-- Property and Equipment Held for Sale

The Registrant has decided to dispose of certain freestanding facilities and other assets (see note 2--Operating Losses and Liquidity). Property and equipment held for sale consisting of land, building, equipment and other fixed assets with a historical net book value of approximately $71.1 million and $15.4 million at May 31, 1990 and 1989, respectively, is carried at estimated net realizable value of approximately $37.2 million and $13.0 million at May 31, 1990 and 1989, respectively. In fiscal 1990 and 1989, aggregate losses were recorded totaling approximately $40.1 million and $2.4 million, respectively, to reflect these assets at estimated net realizable value and are included in net loss(gain) on sale/write-down of assets in the consolidated statements of operations.

Note 7-- Property and Equipment

Property and equipment consists of the following:

	May 31, 1990	May 31, 1989
	(Dollars in thousands)	
Land and improvements	$ 6,671	$ 14,841
Buildings and improvements	19,872	82,435
Furniture and equipment	12,581	22,409
Leasehold improvements	883	1,765
Capital leases	1,894	2,704
	$41,901	$124,154

Note 8-- Joint Venture Partnerships

In 1972, the Registrant entered into a joint venture partnership with another corporation for the purpose of operating two hospitals. Under the terms of the joint venture agreement, the Registrant 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. The Registrant has a 50% interest in the joint venture.

In 1984, the Registrant entered into a joint venture agreement with a subsidiary of HealthOne Corp. (formerly The Health Central System). The joint venture owned and operated Golden Valley Health Center, a behavioral medicine facility located in a suburb of Minneapolis, Minnesota, which was sold in fiscal 1989. The Registrant serves as managing partner of the joint venture, which holds a promissory note from the purchaser of the facility in the amount of $2.5 million. The Registrant has a 50% interest in the joint venture.

The Registrant reports its interest in these joint ventures on the equity method. The condensed combined assets and liabilities of these joint ventures are set forth in the following table:

	May 31, 1990	May 31, 1989
	(Dollars in thousands)	
Assets:		
Current assets	$ 5,772	$ 7,240
Property and equipment, net	2,813	2,734
Other assets	2,545	2,506
	$11,130	$12,480
Liabilities and partners' equity:		
Total liabilities	$ 2,232	$ 1,308
Partners' equity	8,898	11,172
	$11,130	$12,480

Note 8-- Joint Venture Partnerships (continued)

Combined operating results of these joint venture partnerships are as follows:

	Years Ended May 31, 1990	1989	1988
	(Dollars in thousands)		
Revenues	$16,063	$26,776	$35,622
Costs and expenses:			
Operating, general and administrative	15,176	25,738	30,052
Depreciation and amortization	425	988	1,296
	15,601	26,726	31,348
Earnings before income taxes	$ 462	$ 50	$ 4,274

Note 9-- Other Assets

Other assets consist of the following:

	May 31, 1990	1989
	(Dollars in thousands)	
Deferred income tax benefits	$ 3,798	$ --
Intangible assets, net	2,672	7,569
Notes receivable	117	1,300
Investments	--	6,404
Deferred contract costs, net	582	2,846
Other	2,855	4,505
	$10,024	$22,624

Note 10-- Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	May 31, 1990	1989
	(Dollars in thousands)	
Accounts payable and accrued liabilities	$15,834	$14,665
Accrued salaries and wages	5,174	3,589
Accrued vacation	2,849	3,461
Payable to third-party intermediaries	1,466	1,417
Deferred compensation	1,275	470
	$26,598	$23,602

Note 11-- Long-Term Debt

Long-term debt consists of the following:

	May 31, 1990	May 31, 1989
	(Dollars in thousands)	
Senior Secured Debt:		
Term loan, bearing interest at a variable rate, payable monthly, maturing in 1992 (b)(e)	$13,152	$10,047
Revolving loan, bearing interest at a variable rate, payable monthly, maturing in 1992 (b)(e)	3,000	13,000
Revenue bonds, bearing interest at 65% of prime, payable monthly, maturing in 1994 (e)	1,023	1,202
Revenue bonds, bearing interest at 90% of prime, payable quarterly, maturing in 1995 (d)(e)	2,822	3,375
Senior secured notes, bearing interest at 11.4%, payable semi-annually, maturing in 1995 (c)(e)	19,731	20,000
	39,728	47,624
7% to 1[illegible] % notes, payable in monthly installments with maturity dates through 1995, collateralized by real and personal property having a net book value of $5,827	679	953
7.5% convertible subordinated debentures due 2010 (a)	46,000	46,000
Capital lease obligations	1,070	1,583
Other	176	259
Total long-term debt	$87,653	$96,419
Less current maturities of long-term debt	1,089	24,187
Long-term debt, excluding current maturities	$86,564	$72,232

As of May 31, 1990, the annual maturities of long-term debt for the next five years are approximately $1,089 in 1991, $17,036 in 1992, $4,713 in 1993, $4,987 in 1994 and $4,707 in 1995.

The maximum amount outstanding of short-term borrowings from banks was approximately $25 million, $13 million and $6 million during the years ended May 31, 1990, 1989 and 1988, respectively. The average amount outstanding of such borrowings, based upon an average of month-end balances for periods when the Registrant had such debt outstanding, was $21.5 million, $11.6 million and $4 million during the years ended May 31, 1990, 1989 and 1988, respectively.

(a) In April 1985, the Registrant issued $46 million in convertible subordinated debentures. These debentures require that the Registrant make semiannual interest payments in April and October at an interest rate of 7.5%. The debentures are due in 2010 but may be converted to common stock of the Registrant at the option of the holder at a conversion price of $25.97 per share, subject to adjustment in certain events. The debentures are also redeemable at the option of the Registrant in certain circumstances. Mandatory annual sinking fund payments sufficient to retire 5% of the aggregate principal amount of the debentures are required to be made on each April 15 commencing in April 1996 to and including April 15, 2009.

Note 11-- Long-Term Debt (continued)

(b) At May 31, 1990 and 1989, the Registrant had a term loan and revolving loans outstanding with banks. As of May 31, 1989, these loans were classified as current liabilities based upon their terms at that date. In fiscal 1990, the maturity dates of these loans were extended under several extension agreements with the banks. Since October 1989, these loans have been collateralized by four facilities and the former corporate headquarters building in Irvine, California. See also note (e) below. On May 3, 1990, the Registrant entered into an amended and restated loan agreement with the banks ("New Bank Agreement") which, among other things, substantially revised the restrictive covenants of the previous bank loan agreements, granted additional security interests in certain of the Registrant's assets to further collateralize these borrowings, and revised the maturity dates and repayment provisions of the Registrant's outstanding bank indebtedness. On July 27, 1990, further amendments to the New Bank Agreement were made with respect to certain restrictive covenants, certain collateralization provisions relative to certain income tax refunds and further extended the maturity of such debt to May 31, 1992. Fees and other costs associated with the extensions and the New Bank Agreement totaling $1.3 million were expensed in the year ended May 31, 1990. Outstanding bank borrowings bear interest, payable monthly, at prime plus 1% (prime rate was 10% at May 31, 1990 and 11.5% at May 31, 1989). The New Bank Agreement includes various restrictive covenants related to the maintenance of minimum net worth, capital expenditures, payment of dividends, and distribution of proceeds of sale of the Registrant's assets.

(c) In July 1988, the Registrant and two subsidiaries of the Registrant issued $20 million in senior secured notes to a group of insurance companies. The notes were originally secured by three of the Registrant's freestanding facilities. See also note (e) below. Performance of the subsidiaries' obligations under the notes is guaranteed by the Registrant. The notes originally provided for the payment of interest at a fixed rate of 10.5% per annum. The notes require principal payment in five equal annual installments beginning on August 1, 1991, the first of which was prepaid in July, 1990. Interest on the unpaid balance is payable semi-annually commencing February 1, 1989. On May 3, 1990, the Registrant entered into an amended trust indenture which amended certain restrictive covenants and collateral provisions to be consistent with the New Bank Agreement and increased the interest rate on the senior secured notes to 11.4%. Fees and costs associated with the amendment to the trust indenture totaling $380,000 were expensed in the year ended May 31, 1990. On July 27, 1990, the trust indenture was further amended to be consistent with the New Bank Agreement, as amended.

(d) The Registrant has guaranteed the performance of a wholly owned subsidiary under terms of a trust indenture pursuant to which revenue bonds were issued in principal amounts of $6 million and $2 million. The terms of the Registrant's guarantee require that the Registrant comply with certain financial covenants including minimum net worth, debt to equity ratios, current ratio, and other financial covenants all as defined in the agreements. On May 3, 1990, the Registrant and its wholly owned subsidiary entered into amendments to the guarantee and related agreements which amended the restrictive covenants and collateral provisions of the trust indenture to be consistent with the New Bank Agreement. On July 27, 1990, the guarantee and related agreements were further amended to be consistent with the New Bank Agreement, as amended. In connection with the May and July restructuring of the senior indebtedness the holder of the revenue bonds entered into forbearance agreements pursuant to which the holder agreed not to exercise its rights to cause the Registrant to repurchase the revenue bonds, absent an event of default, until the earlier of May 31, 1992 or the date on which the bank indebtedness is repaid.

(e) On May 3, 1990, the Registrant entered into a Collateral Trust Agreement (CTA) for the benefit of the holders of the Registrant's senior secured lenders, that is, the banks, the insurance companies and the revenue bondholder. Under terms of the CTA, substantially all the Registrant's assets not previously pledged were pledged as additional collateral to secure the senior indebtedness. Substantially all the proceeds resulting from a sale of any of the pledged assets will be used to repay senior indebtedness.

Substantially all of the Registrant's senior indebtedness has been issued pursuant to agreements which include cross-default provisions. Accordingly, a default under terms of any senior debt instrument may result in default under agreements governing substantially all of the Registrant's senior debt. In addition, during periods when the Registrant is in default under its senior debt, the Registrant could be precluded from paying interest to the holders of its 7.5% convertible subordinated debentures. If such a payment default occurs and is not cured within the 30-day period provided in the trust indenture, the holders of the 7.5% convertible subordinated debentures may declare a default and the $46 million in principal amount of the 7.5% convertible subordinated debentures could also be accelerated.

Note 12-- Lease Commitments

The Registrant leases certain facilities, furniture and equipment. The facility leases contain escalation clauses 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 are as follows:

	Years Ended May 31, 1990	1989	1988
	(Dollars in thousands)		
Minimum rentals	$ 2,143	$ 1,865	$ 1,830
Contingent rentals	152	186	338
Total rentals	$ 2,295	$ 2,051	$ 2,168

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease; contingent rents associated with capital leases in fiscal 1990, 1989 and 1988 were $163,000, $203,000 and $188,000, respectively. The net book value of capital leases at May 31, 1990 and 1989 was $674,000 and $978,000, respectively.

Future minimum payments, by year and in the aggregate, under capital leases and noncancellable operating leases with initial or remaining terms of one year or more consist of the following at May 31, 1990:

Fiscal Year	Capital Leases	Operating Leases
	(Dollars in thousands)	
1991	$ 204	$1,397
1992	204	798
1993	204	547
1994	204	367
1995	204	166
Later years	1,460	1,895
Total minimum lease payments	2,480	$5,170
Less amounts representing interest	1,410	
Present value of net minimum lease payments	$1,070	

Note 13-- Income Taxes

Provision (benefit) for income taxes consist of the following:

	Years Ended May 31, 1990	1989	1988
	(Dollars in thousands)		
Current:			
Federal	$(15,785)	$4,928	$ 8,512
State	336	1,363	1,980
	(15,449)	6,291	10,492
Deferred:			
Federal	(4,845)	(3,924)	(3,625)
State	--	(1,108)	(937)
	(4,845)	(5,032)	(4,562)
	$(20,294)	$1,259	$ 5,930

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
May 31, 1990, 1989 and 1988

Note 13-- Income Taxes (continued)

A reconciliation between provision(benefit) for income taxes and the amount computed by applying the statutory federal income tax rate (34% in 1990 and 1989; and 35% in 1988) to earnings(loss) before income taxes is as follows:

	Years Ended May 31,		
	1990	1989	1988
	(Dollars in thousands)		
Provision(benefit) for income taxes at the statutory tax rate	$(27,065)	$ 599	$5,215
State income taxes, net of federal tax benefit	221	168	678
Amortization of intangible assets	95	112	95
Reorganization expenses	(410)	410	--
Tax effect of net operating loss in excess of amount required to recover prior years' taxes available for carryback	9,311	--	--
Additional tax refund due to difference resulting from net operating loss carryback	(2,493)	--	--
Other, net	47	(30)	(58)
	$(20,294)	$1,259	$5,930

Total provision(benefit) for income taxes differs from taxes currently payable (refundable) as a result of differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these differences and the tax effect of each are as follows:

	Years Ended May 31,		
	1990	1989	1988
	(Dollars in thousands)		
Excess tax over book depreciation	$ 435	$ 400	$ 1,251
Cash basis accounting and different reporting period by joint ventures	(302)	(1,506)	(1,337)
State income taxes	--	353	304
Deferred compensation expense deductible on a cash basis	(889)	104	(578)
Cash basis accounting by subsidiaries	(561)	(732)	(401)
Employee benefit expenses not currently deductible	(126)	(235)	(1,069)
Write-down of assets held for sale not currently deductible	(15,533)	(840)	--
Bad debt expense for financial reporting purposes less than (greater than) deductible for income tax purposes	1,562	(1,634)	(2,516)
Debt restructuring expenses not currently deductible	(683)	--	--
Net deferred tax not currently available for valuation	11,196	--	--
Other, net	56	(842)	(216)
	$(4,845)	$(5,032)	$(4,562)

At May 31, 1990, the Registrant had net operating loss carryforwards of approximately $27 million for financial reporting purposes. All benefits from recoverable Federal income taxes paid in prior years (tax carrybacks) have been recognized as of May 31, 1990. No further tax carrybacks are available.

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Note 14-- Deferred Compensation Plans

The Registrant has a deferred compensation agreement with its former Chairman. The vested unfunded benefits at May 31, 1990 and 1989 of $1,609,000 and $1,524,000, respectively, have been accrued by the Registrant. The Registrant utilized an 8% discount rate in determining the present value of vested unfunded past service cost. Effective February 1, 1990, the Registrant's former Chairman commenced receiving payouts in accordance with his agreement.

The Registrant has deferred compensation plans for its key executives and medical directors. Under provisions of these plans, participants have elected to defer receipt of a portion of their compensation to future periods. In most cases, upon separation from the Registrant, participants receive payouts of their deferred compensation balances over five years. Effective January 1, 1989, participants were not offered the opportunity to defer compensation to future periods.

Note 15-- Stockholders' Equity

The Registrant is authorized to issue 60,000 shares of preferred stock with a par value of $50 per share. No preferred shares have been issued.

In fiscal 1988, the Registrant repurchased 1,000,000 shares of its common stock at an aggregate cost of approximately $8.6 million pursuant to an open market stock repurchase program.

In fiscal 1988, the Registrant's Board of Directors adopted the 1988 Incentive Stock Option Plan and 1988 Nonstatutory Stock Option Plan. Options granted under the 1988 Incentive Stock Option Plan are intended to qualify as incentive stock options ("ISOs") under Section 422A of the Internal Revenue Code. Options granted under the 1988 Nonstatutory Stock Option Plan do not qualify as ISOs. The maximum number of shares subject to option are 750,000 and 200,000 for the ISOs and nonstatutory options, respectively. During fiscal 1990, certain options were granted at $3.00 per share in consideration for cancellation of options previously granted in fiscal 1988 at $8.125 per share. The following table sets forth the ISO granted under the 1988 plan:

	Number of Shares	Option Price Per Share	Option Price Aggregate (In thousands)
Options granted in fiscal 1988	654,728	$ 8.125	$5,320
Balance May 31, 1988	654,728	8.125	5,320
Options forfeited in fiscal 1989	(167,367)	8.125	(1,360)
Options exercised in fiscal 1989	(31,172)	8.125	(253)
Balance May 31, 1989	456,189	8.125	3,707
Options exercised in fiscal 1990	(40,196)	8.125	(328)
Options canceled in fiscal 1990	(278,962)	8.125	(2,265)
Options issued or regranted in fiscal 1990	377,500	3.00	1,133
Options forfeited in fiscal 1990	(182,929)	$3.00-8.125	(1,230)
Balance May 31, 1990	331,602		$1,017

The per share exercise price of shares to be issued under the plans is determined by the Board of Directors, but in no event is the option exercise price so determined less than the then fair market value (as defined in the plans) of the shares. In the case of an ISO, if, on the date of the grant of such option, the optionee is a restricted stockholder (as defined in the plans), the option exercise price cannot be less than 110% of the fair market value of the shares on the date of the grant.

Options vest and become exercisable at such times and in such installments as the Board of Directors provides for in the individual option agreement, except that an option granted to a director may not be exercised until the

Note 15-- Stockholders' Equity (continued)

expiration of one year from the date such option is granted. Subject to the limitation with respect to the vesting of options granted to directors, the Board of Directors may in its sole discretion accelerate the time at which an option or installment thereof may be exercised.

During fiscal 1988, the Registrant granted nonstatutory options for 28,316 common shares at an exercise price of $14.13 per share. All outstanding nonstatutory options were canceled during fiscal 1988. During fiscal 1988, nonstatutory options for 92,557 shares were granted under the 1988 plan at exercise prices ranging from $8.125 to $14.13 per share in replacement of the cancelled options. The nonstatutory options became exercisable one year after the date of grant. In fiscal 1989, nonstatutory options for 14,806 shares were cancelled. In fiscal 1990, nonstatutory options for 12,500 shares were granted at an exercise price of $2.56 per share. At May 31, 1990 nonstatutory options for 90,251 shares were outstanding at exercise prices ranging from $2.56 to $14.13 per share.

On April 19, 1988, the Registrant declared a dividend of one common share purchase right ("Right") for each share of common stock outstanding at May 6, 1988. Each Right entitles the holder to purchase one share of common stock at a price of $30 per share, subject to certain anti-dilution adjustments. The Rights are not exercisable and are transferable only with the common stock until the earlier of ten days following a public announcement that a person has acquired ownership of 25% or more of the Registrant's common stock or the commencement or announcement of a tender or exchange offer, the consummation of which would result in the ownership by a person of 30% or more of the Registrant's common stock. In the event that a person acquires 25% or more of the Registrant's common stock or if the Registrant is the surviving corporation in a merger and its common stock is not changed or exchanged, each holder of a Right, other than the 25% stockholder (whose Rights will be void), will thereafter have the right to receive on exercise that number of shares of common stock having a market value of two times the exercise price of the Right. If the Registrant is acquired in a merger or more than 50% of its assets are sold, proper provision shall be made so that each Right holder shall have the right to receive or exercise, at the then-current exercise price of the Right, that number of shares of common stock of the acquiring company that at the time of the transaction would have a market value of two times the exercise price of the Right. The Rights are redeemable at a price of $.02 per Right at any time prior to ten days after a person has acquired 25% or more of the Registrant's common stock.

Note 16-- Commitments and Contingencies

In fiscal 1990 three stockholder class action complaints were filed (and subsequently consolidated) against the Registrant and others in connection with the terminated reorganization with First Hospital Corporation. In June 1990, the Registrant and the Registrant's directors entered into an agreement to settle the consolidated stockholder class actions. Under the terms of the agreement, the Registrant agreed to pay $150,000 in cash and to issue 687,500 shares of the Registrant's common stock to the plaintiffs and the proposed class. The District Court, which must approve the settlement, has expressed concerns regarding certain terms of the proposed settlement. On August 3, 1990, the District Court denied the plaintiffs' motion for class certification.

In addition to the foregoing matters, the Registrant is routinely engaged in the defense of lawsuits arising out of the ordinary course and conduct of its business and has insurance policies covering such potential insurable losses where such coverage is cost-effective. Management believes that the outcome of such lawsuits will not have a material adverse impact on the Registrant's business.

The Registrant is currently undergoing a payroll tax audit by the Internal Revenue Service ("IRS") for calendar years 1983 through 1988. The IRS agent conducting the audit has verbally asserted that certain physicians and psychologists engaged as independent contractors by the Registrant should have been treated as employees for payroll tax purposes. The Registrant has not received an assessment related to this assertion. Management believes that its treatment of the independent contractors is consistent with IRS guidelines and established industry practice. Management intends to defend vigorously any claims made by the IRS related to this issue; however, management is unable to predict the ultimate impact of the IRS audit.

COMPREHENSIVE CARE CORPORATION
Notes to Consolidated Financial Statements (continued)
May 31, 1990, 1989 and 1988

Note 16-- Commitments and Contingencies (continued)

The Registrant has committed approximately $1.8 million for fiscal 1991 in connection with completion of construction of its Brea Hospital Neuropsychiatric Center.

Note 17-- Unaudited Quarterly Results

(Dollars in thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1990				
Operating revenues	$44,017	$37,401	$31,436	$30,840
Costs and expenses	48,475	49,058	54,721	68,286
Operating earnings(loss)	(4,458)	(11,657)	(23,285)	(37,446)
Equity in earnings(loss) of unconsolidated joint ventures	215	23	(99)	92
Gain on reorganization agreement	--	5,000	--	--
Minority interest in loss(earnings) of consolidated joint ventures	(100)	495	113	--
Interest expense, net of interest income	(2,103)	(2,139)	(2,121)	(2,132)
Earnings(loss) before income taxes	(6,446)	(8,278)	(25,392)	(39,486)
Provision(benefit) for income taxes	(1,774)	(4,263)	(4,793)	(9,464)
Net loss	$(4,672)	$(4,015)	$(20,599)	$(30,022)
Per share:				
Net earnings(loss)	$(0.46)	$(0.39)	$(2.02)	$(2.96)
Dividends declared	--	--	--	--
1989				
Operating revenues	$53,227	$54,745	$51,837	$50,102
Costs and expenses	48,460	45,829	47,543	55,983
Operating earnings(loss)	4,767	8,916	4,294	(5,881)
Equity in earnings(loss) of unconsolidated joint ventures	685	(791)	(212)	343
Minority interest on earnings of consolidated joint ventures	(299)	(237)	(261)	(192)
Interest expense, net of interest income	(2,473)	(2,603)	(2,360)	(1,935)
Earnings(loss) before income taxes	2,680	5,285	1,461	(7,665)
Provision(benefit) for income taxes	1,072	2,192	601	(2,606)
Net earnings(loss)	$1,608	$3,093	$860	$(5,059)
Per share:				
Net earnings(loss)	$0.18	$0.30	$0.08	$(0.50)
Dividends declared	$0.10	$0.10	--	--

Certain fiscal 1989 amounts have been reclassified to conform to the fiscal 1990 presentation.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

DIRECTORS OF THE REGISTRANT

JAMES P. CARMANY, age 51. Mr. Carmany was elected a director, President and Chief Executive Officer of the Registrant on August 27, 1990. Prior to his election, he was Executive Vice President, RxFast, Inc., Mission Viejo, California (weight control) from October 1989 and a management consultant since May 1989. Mr. Carmany was employed by the Registrant from 1978 until May 1989. He was Executive Vice President, Hospital Operations of the Registrant from 1987 until May 1989. He was Senior Vice President, National Client Services from 1985 until 1986 when he became Senior Vice President, Operations. He was a Vice President of the Registrant from 1982 until 1985.

HARVEY G. FELSEN, age 51. Mr. Felsen is President of Ensceo Incorporated, Somerset, New Jersey (environmental analytical services), which was founded by Mr. Felsen in 1984 and was acquired by Corning Glass in 1989. Mr. Felsen has been a director of the Registrant since August 20, 1990.

HOWARD S. GROTH, age 49. Mr. Groth is the owner of Stan Groth & Associates, a hospital management engineering firm located in West Linn, Oregon founded by him in 1985. He was a regional director, American Medical Buildings, Inc. from March 1987 to July 1988. Mr. Groth has been a director of the Registrant since August 20, 1990.

ROBERT I. MILLER, age 49. Mr. Miller is President of Rainier Diesel Electric, Inc., Seattle, Washington (electric component rebuilder). Mr. Miller has been a director of the Registrant since August 20, 1990.

CHARLES MOORE, age 58. Mr. Moore is President of Uresco Construction Materials, Inc., Kent, Washington (wholesale building materials). Mr. Moore has been a director of the Registrant since August 20, 1990.

W. JAMES NICOL, age 46. Mr. Nicol was employed by the Registrant from 1973 through June 1989 when he resigned as Executive Vice President, Contract Operations, and from October 31, 1989 until August 27, 1990 he served as President and Chief Executive Officer. He has been a director of the Registrant since 1988 and was also a director from 1985 to 1987.

Each of the other directors has agreed to nominate and to use his best efforts to cause Mr. Nicol to be reelected at the next Annual Meeting of Stockholders, provided that Mr. Nicol has fulfilled his duties as a director.

MICHAEL K. O'TOOLE, age 45. Mr. O'Toole has been Executive Vice President of Burlington Air Imports, Inc., Irvine, California (air freight forwarding) since March 1988. He was previously President of Skyway Transport, Inc., Portland, Oregon. Mr. O'Toole has been a director of the Registrant since August 20, 1990.

NORMAN L. PERRY, age 60. Mr. Perry is President of Tree Products Enterprises, Inc., Lake Oswego, Oregon (lumber manufacturing and marketing). Mr. Perry has been a director since August 20, 1990 and is Chairman of the Registrant's Board of Directors.

All of the current directors, except Mr. Carmany, were elected by written consent of the Registrant's stockholders on August 20, 1990 following a successful solicitation of stockholder consents to the removal of the entire Board of Directors of the Registrant by the Shareholders Committee to Rejuvenate CompCare and six of the nominees of the Committee were elected by consent as was Mr. Nicol for whom the incumbent management cumulated proxies in favor of its nominee. On August 27, 1990, the Board of Directors of the Registrant increased the number of directors from seven to eight and Mr. Carmany was elected to fill the vacancy created by this increase in the number of directors.

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EXECUTIVE OFFICERS OF THE REGISTRANT

JAMES P. CARMANY, age 51. Mr. Carmany was elected a director, President and Chief Executive Officer of the Registrant on August 27, 1990. Prior to his election, he was Executive Vice President, RxFast, Inc., Mission Viejo, California (weight control) from October 1989 and a management consultant since May 1989. Mr. Carmany was employed by the Registrant from 1978 until May 1989. He was Executive Vice President, Hospital Operations of the Registrant from 1987 until May 1989. He was Senior Vice President, National Client Services from 1985 until 1986 when he became Senior Vice President, Operations. He was a Vice President of the Registrant from 1982 until 1985.

DONALD G. SIMPSON, age 38. Mr. Simpson was elected Executive Vice President and Chief Operating Officer of the Registrant on August 27, 1990. He was employed by the Registrant from 1980 until May 1989, and was a Vice President, Operations of the Registrant from 1985 until 1986 when he became Senior Vice President, Operations. In 1987, he became Senior Vice President, Contract Operations. Mr. Simpson was associated with Mr. Carmany in RxFast, Inc. immediately prior to rejoining the Registrant.

STEPHEN J. TOTH, age 41. Mr. Toth was elected Executive Vice President of the Registrant on September 11, 1990. He has been employed by the Registrant since 1974. He was Vice President, Employee Services from 1984 until 1986 when he became Vice President, Outpatient Services. In 1987, he became Senior Vice President, Quality Assurance. In 1988, he became Senior Vice President, Professional Services. In 1990, he assumed responsibility for communications, administration, human resources and, until his election as Executive Vice President, all of the Registrant's freestanding facilities (except Albuquerque and Kirkland).

JAMES M. USDAN, age 40. Mr. Usdan was elected Executive Vice President of the Registrant and President of CareUnit, Inc. on September 11, 1990. He has been employed by the Registrant since April 1990 as a Senior Vice President of the Registrant and President of RehabCare. Prior to his employment with the Registrant, Mr. Usdan was President, Chief Executive Officer and a director of American Transitional Care, Inc. (rehabilitation care to the injured and disabled) from 1987 to 1990. From 1986 to 1987, Mr. Usdan was Chief Operating Officer and Executive Vice President of Rehab Hospital Services Corp., a subsidiary of the NME Specialty Hospital Group. From 1984 to 1986, Mr. Usdan was President, Chief Executive Officer and director of Behavioral Health System, Inc., (psychiatry and chemical dependency contract management).

ALAN C. HENDERSON, age 44. Mr. Henderson has been employed by the Registrant since February 1990 as a Senior Vice President and Chief Financial Officer of the Registrant. In March 1990, he was appointed Treasurer. Prior to his employment with the Registrant, Mr. Henderson was Vice President, Finance with Sverdrup Corp., (engineering and construction) from 1983 to 1990.

Directors' Meetings and Fees

During fiscal 1990, the Board of Directors of the Registrant held 21 meetings (15 telephonic meetings and 6 in person meetings) and acted by unanimous written consent twice. Each director attended more than 75% of the meetings of the Board and its committees on which he served during his period of service.

Each director who was not a full-time employee of the Registrant (other than the chairman), received a $5,000 retainer during the fiscal year ended May 31, 1990 and $5,000 for each Board meeting attended in person. In February 1990, the chairman's annual retainer was increased to $10,000 and payments to him for each Board meeting attended in person were increased to $7,500. The former chairman was also awarded a one-time grant of nonstatutory stock options to purchase 12,500 shares of the Registrant's Common Stock at $2.56 per share. Directors were not compensated for attendance at committee meetings or for participation in telephonic Board meetings.

The Registrant has an Executive Committee composed of Messrs. Carmany, Felsen and Perry; an Audit Committee composed of Messrs. Felsen, Groth and Miller; a Compensation Committee composed of Messrs. Groth, Miller and O'Toole; a Planning Committee composed of Messrs. Moore, O'Toole, and Perry; and a Litigation Committee composed of Messrs. Carmany, Moore and Nicol. During fiscal 1990, the Registrant had an Audit Committee, a Compensation/Stock Option Committee, a Nominating Committee and a Strategic Planning Committee.

The Audit Committee meets annually to review the report of the auditors' findings following the close of the audit and thereafter submits a report of such findings to the Board of Directors. It also makes a recommendation to the Board on the selection of independent public accountants for the subsequent year. The Audit Committee met twice during fiscal 1990.

The Compensation/Stock Option Committee recommends compensation for executives and the issuance of stock options under existing plans and the modification of any such plans. The Compensation/Stock Option Committee met twice during fiscal 1990.

The Nominating Committee was established on March 16, 1990 to evaluate the background of proposed nominees to the Board. The Nominating Committee met once during fiscal 1990.

The Strategic Planning Committee was established in February 1989 to evaluate various alternatives for the Registrant of a capital nature. The Strategic Planning Committee met twice during fiscal 1990.

Item 11. EXECUTIVE COMPENSATION.

There is hereby incorporated by reference the information which appears under the caption "Executive Compensation and Other Information" in a joint proxy and consent revocation statement filed with the Securities and Exchange Commission in opposition to the solicitation of consents by a dissident group of stockholders to remove and elect directors.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

As of August 31, 1990, 10,173,663 shares of the Registrant's Common Stock were issued and outstanding. The following table sets forth, as of that date, information with respect to the beneficial ownership of the Registrant's Common Stock by each stockholder known to be a beneficial owner of more than 5% of the outstanding Common Stock of the Registrant, by each director and by all directors and officers as a group.

Name of individual or group	Amount and Nature of Beneficial Ownership — No. of Shares	Percent of Class
Invista Capital Management, Inc. 699 Walnut, 1500 Hub Tower Des Moines, Iowa	965,574(1)	9.1%
Livingston & Company 4380 SW Macadam Avenue, Suite 120 Portland, Oregon	930,651(2)	8.9%
James P. Carmany	1,000	--(7)
Harvey G. Felsen	62,200	0.6%
Howard S. Groth	1,000	--(7)
Charles Moore	82,676(3)	0.8%
W. James Nicol	3,407(4)	--(7)
Michael K. O'Toole	3,250	--(7)
Norman L. Perry	102,066(5)	1.0%
All directors and officers (16 persons) as a group	269,196(6)	2.6%

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(1) The number of shares in the table is taken from filings made by Invista Capital Management, Inc. as of June 30, 1990 with the Securities and Exchange Commission, reporting beneficial ownership and includes 468,474 shares receivable upon conversion of the Registrant's 7.5% convertible subordinated debentures. Such filings indicate that Invista in its capacity as investment advisor has sole voting power and sole investment power with respect to such shares.

(2) The number of shares in the table is taken from filings made by Livingston & Company as of September 6, 1990 with the Securities and Exchange Commission, reporting beneficial ownership. Such filings indicate that Livingston & Company has sole voting power as to 111,350 shares (representing approximately 1% of the outstanding shares) has sole investment power as to no shares (representing approximately 0.0% of the outstanding shares) and has shared investment power as to 930,651 shares (representing approximately 8.9% of the outstanding shares). The number of shares includes 251,520 shares receivable upon conversion of the Registrant's 7.5% convertible subordinated debentures.

(3) 66,900 shares are held by Uresco Construction Materials, Inc. Defined Profit Sharing Trust which is controlled by Mr. Moore and 15,776 shares (including 5,776 receivable upon conversion of Registrant's 7.5% convertible subordinated debentures) are held by a partnership of which Mr. Moore has sole voting power and shared investment power.

(4) Includes 564 shares held by Mr. Nicol's spouse as custodian for his three minor children, all of whom reside with Mr. Nicol, and 2,843 shares held by the trustee of the Registrant's Employee Savings Plan.

(5) Includes 78,066 shares held by Tree Products Enterprises, Inc. and 24,000 shares held by Tree Products Enterprises Defined Benefit Plan, both of which are controlled by Mr. Perry.

(6) Includes 5,764 shares held by the independent trustee of the Registrant's Employee Savings Plan allocated in the accounts of directors and officers as of June 30, 1990. Unless otherwise indicated, the directors and officers possess sole voting power and investment power with respect to the shares listed (except to the extent such authority is shared with the trustee of the Registrant's Employee Savings Plan or with spouses under applicable law.)

(7) Less than 0.1%.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In 1986, the Registrant loaned $140,000 to Mr. Carmany to assist him in the purchase of a home in Orange County. The loan was considered necessary by the Registrant as it required Mr. Carmany to relocate from Florida to California. The loan was evidenced by a promissory note bearing interest at 10% per annum and was due on February 1, 1991. The note was secured by a Deed of Trust on the home. The largest aggregate amount of such indebtedness outstanding during the fiscal year ended May 31, 1990 was $67,700. The loan was forgiven under the terms of a settlement agreement in August 1989.

In 1987, RehabCare loaned $200,000 to Mr. Nicol to assist him in the purchase of a home in the Chesterfield, Missouri area. RehabCare considered this loan necessary as it required Mr. Nicol to relocate from California to Missouri. The loan was evidenced by a promissory note bearing interest at 8% per annum and was due October 10, 1992. The note was secured by a Deed of Trust on the home. The largest aggregate amount of such indebtedness outstanding during the fiscal year ended May 31, 1990 was $133,300. The loan was forgiven under the terms of Mr. Nicol's termination agreement in June 1989.

On August 27, 1990, the Board of Directors of the Registrant authorized the payment of approximately $435,000 of expenses incurred by the Shareholders Committee to Rejuvenate CompCare in connection with its solicitation of consents to remove the former Board of Directors. Messrs. Perry and Moore were members of the Shareholders Committee to Rejuvenate CompCare.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) **1. Financial Statements**

Included in Part II of this report:

- Independent auditors' report
- Consolidated balance sheets at May 31, 1990 and 1989
- Consolidated statements of operations, years ended May 31, 1990, 1989 and 1988
- Consolidated statements of stockholders' equity, years ended May 31, 1990, 1989 and 1988
- Consolidated statements of cash flows, years ended May 31, 1990, 1989 and 1988
- Notes to consolidated financial statements

2. Financial Statement Schedules

V. Property and Equipment

VI. Accumulated Depreciation and Amortization of Property and Equipment

X. Supplementary Statements of Operations Information

Other schedules are omitted, as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

3. Exhibits

Exhibit Number	Description and Reference
3.1	Restated Certificate of Incorporation(4)
3.2	Restated Bylaws adopted January 19, 1990 and as amended July 18, 1990(10)
4.1	Indenture dated April 25, 1985 between the Registrant and Bank of America, NT&SA, relating to Convertible Subordinated Debentures(1)
4.2	Trust Indenture dated as of July 1, 1988 among the Registrant, Starting Point Incorporated, CareUnit Hospital of Ohio, Inc., and Security Pacific National Bank, relating to Senior Secured Notes (7)
4.3	Rights Agreement dated as of April 19, 1988 between the Registrant and Security Pacific National Bank(5)
4.4	First Amendment to Trust Indenture dated as of April 30, 1990 among the Registrant, Starting Point Incorporated, CareUnit Hospital of Onio, Inc. and Security Pacific National Bank, relating to Senior Secured Notes (filed herewith)
4.5	Second Amendment to Trust Indenture dated as of July 27, 1990 among the Registrant, Starting Point Incorporated, CareUnit Hospital of Ohio, Inc. and Security Pacific National Bank, relating to Senior Secured Notes (filed herewith)
10.1	Standard form of CareUnit Contract(7)
10.2	Standard form of CarePsychCenter Contract(7)
10.3	The Registrant's Employee Savings Plan, as amended and restated(6)
10.4	Deferred Compensation Agreement dated April 6, 1982 between the Registrant and B. Lee Karns(7)
10.5	Amendment No. 1 to Deferred Compensation Agreement dated September 20, 1983 between the Registrant and B. Lee Karns(filed herewith)
10.6	Amendment No. 2 to Deferred Compensation Agreement dated April 21, 1986 between the Registrant and B. Lee Karns(3)
10.7	Form of Individual Death Benefit Agreement(filed herewith)
10.8	Financial Security Plan for executive management and medical directors (filed herewith)
10.9	The Registrant's 1988 Incentive Stock Option and 1988 Nonstatutory Stock Option Plans(7)
10.10	Form of Stock Option Agreement(7)
10.11	Form of Indemnity Agreement(7)
10.12	Description of Executive Bonus Plan(2)
10.13	Executive Employment Agreement dated as of March 22, 1989 between the Registrant and Marilyn U. MacNiven-Young(8)
10.14	Executive Employment Agreement dated as of March 22, 1989 between the Registrant and Stephen R. Munroe (8)
10.15	Amendment No. 2 to the Registrant's Employee Savings Plan dated as of December 14, 1989(9)
10.16	Executive Employment Agreement dated as of October 31, 1989 between the Registrant and W. James Nicol(9)
10.17	Executive Employment Agreement dated as of February 26, 1990 between the Registrant and Alan C. Henderson(9)
10.18	Executive Employee Agreement dated as of April 23, 1990 between RehabCare Corporation and James M. Usdan (filed herewith)
10.19	Second Amended and Restated Loan Agreement dated as of May 3, 1990 among the Registrant, certain of its subsidiaries, Union Bank, Southeast Bank, N.A., and The Boatmen's National Bank of St. Louis(filed herewith)
10.20	First Amendment to Guaranty Agreement dated as of May 3, 1990 between the Registrant and Southeast Bank, N.A., relating to the Coral Springs Bonds(filed herewith)
10.21	Collateral Trust Agreement dated as of May 3, 1990 among the Registrant, certain of its subsidiaries, Seattle-First National Bank, Union Bank, Security Pacific National Bank and Southeast Bank, N.A.(filed herewith)
10.22	First Amendment to Guaranty Agreement dated as of May 3, 1990 among the Registrant, CareUnit of Florida, Inc. and Southeast Bank, N.A. relating to the Jacksonville Beach Bonds(filed herewith)
10.23	Forbearance Agreement dated as of May 3, 1990 between CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Coral Springs Bonds(filed herewith)

Exhibits (continued)

Exhibit Number	Description and Reference
10.24	Forbearance Agreement dated as of May 3, 1990 between CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Jacksonville Beach Bonds (filed herewith)
10.25	First Amendment to Contingent Purchase Agreement dated as of May 3, 1990 between CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Coral Springs Bonds (filed herewith)
10.26	Amendment No. 3 to the Registrant's Employee Savings Plan dated as of May 24, 1990 (filed herewith)
10.27	Executive Employment Agreement dated as of June 1, 1990 between the Registrant and Laurence J. Steudle (filed herewith)
10.28	Executive Employment Agreement dated as of June 1, 1990 between the Registrant and Stephen J. Toth (filed herewith)
10.29	Cash Collateral Agreement dated as of July 27, 1990 among the Registrant, certain of its subsidiaries and Union Bank (filed herewith)
10.30	Amendment No. 1 to Second Amended and Restated Loan Agreement dated as of July 27, 1990 among the Registrant, certain of its subsidiaries, Union Bank, Southeast Bank, N.A. and The Boatmen's National Bank of St. Louis (filed herewith)
10.31	Amendment No. 1 to Collateral Trust Agreement dated as of July 27, 1990 among the Registrant, certain of its subsidiaries, Seattle-First National Bank, Union Bank, Security Pacific National Bank and Southeast Bank, N.A. (filed herewith)
10.32	Cash Collateral Agreement dated as of July 27, 1990 among the Registrant, CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Coral Springs and Jacksonville Beach Bonds (filed herewith)
10.33	Second Amendment to Guaranty Agreement dated as of July 27, 1990 between the Registrant and Southeast Bank, N.A., relating to the Coral Springs Bonds (filed herewith)
10.34	Second Amendment to Guaranty Agreement dated as of July 27, 1990 among the Registrant, CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Jacksonville Beach Bonds (filed herewith)
10.35	Cash Collateral Agreement dated as of July 27, 1990 among the Registrant, Starting Point Incorporated, CareUnit Hospital of Ohio, Inc., certain of the Registrant's subsidiaries and Security Pacific National Bank (filed herewith)
10.36	First Amendment to Forbearance Agreement dated as of July 27, 1990 between CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Coral Springs Bonds(filed herewith)
10.37	First Amendment to Forbearance Agreement dated as of July 27, 1990 between CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Jacksonville Beach Bonds(filed herewith)
10.38	Second Amendment to Contingent Purchase Agreement dated as of July 27, 1990 between CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Coral Springs Bonds(filed herewith)
10.39	Amendment to Executive Employment Agreement dated as of August 17, 1990 between RehabCare Corporation and James M. Usdan(filed herewith)
10.40	Amendment to Executive Employment Agreement dated as of August 17, 1990 between the Registrant and Laurence J. Steudle(filed herewith)
10.41	Amendment to Executive Employment Agreement dated as of August 17, 1990 between the Registrant and Stephen J. Toth(filed herewith)
10.42	Amendment to Executive Employment Agreement dated as of August 17, 1990 between the Registrant and Alan C. Henderson(filed herewith)
10.43	Amendment to Executive Employment Agreement dated as of August 17, 1990 between the Registrant and W. James Nicol(filed herewith)
10.44	Executive Employees' Trust Agreement dated as of August 17, 1990 between the Registrant and Mark Twain Bank(filed herewith)
10.45	Contingent Transition Agreement dated as of August 20, 1990 among the Registrant and certain individual stockholders and certain other entities(filed herewith)
11	Computation of Earnings Per Share (filed herewith)
22	List of the Registrant's subsidiaries (filed herewith)

Exhibits (continued)

Exhibit Number	Description and Reference
24.1	Consent of KPMG Peat Marwick (filed herewith)
28.1	The Registrant's joint proxy and consent revocation statement in opposition to the solicitation of consents by a dissident group of stockholders to remove and elect directors(filed herewith)

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(1) Filed as an exhibit to the Registrant's Form S-3 Registration Statement No. 2-97160.

(2) Filed as an exhibit to the Registrant's Form 10-K for the fiscal year ended May 31, 1985.

(3) Filed as an exhibit to the Registrant's Form 10-K for the fiscal year ended May 31, 1986.

(4) Filed as an exhibit to the Registrant's Form 10-Q for the quarter ended August 31, 1986.

(5) Filed as an exhibit to the Registrant's Form 8-K dated May 4, 1988.

(6) Filed as an exhibit to the Registrant's Post-Effective Amendment No. 1 to Form S-8 Registration Statement No. 33-6520.

(7) Filed as an exhibit to the Registrant's Form 10-K for the fiscal year ended May 31, 1988.

(8) Filed as an exhibit to the Registrant's Form 10-K for the fiscal year ended May 31, 1989.

(9) Filed as an exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 1990.

(10) Filed as an exhibit to the Registrant's Form 8-K dated July 18, 1990.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by the Registrant during the quarter ended May 31, 1990.

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, September 12, 1990.

COMPREHENSIVE CARE CORPORATION

By ______________________
James P. Carmany
President
and Chief Executive Officer

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
James P. Carmany	President (Chief Executive Officer)	September 12, 1990
Alan C. Henderson	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	September 12, 1990
Roger C. Buss	Vice President and Controller (Principal Accounting Officer)	September 12, 1990
Harvey G. Felsen	Director	September 12, 1990
Howard S. Groth	Director	September 12, 1990
Robert I. Miller	Director	September 12, 1990
Charles Moore	Director	September 12, 1990

SIGNATURES (Continued)

Signature	Title	Date
W. James Nicol	Director	September 12, 1990
Michael K. O'Toole	Director	September 12, 1990
Norman L. Perry	Director	September 12, 1990

COMPREHENSIVE CARE CORPORATION

Schedule V - Property and Equipment

Years Ended May 31, 1990, 1989 and 1988

	Balance at Beginning of Period	Additions at Cost	Sales and Retirements	Reclassi- fications(1)	Balance at End of Period
			(Dollars in thousands)		
Year ended May 31, 1990					
Land and improvements	$ 14,841	$ --	$ --	$(8,170)	$ 6,671
Buildings and improvements	82,435	11,747	$2	(74,308)	19,872
Furniture and equipment	22,409	1,813	1,965	(9,676)	12,581
Leasehold improvements	1,765	5	108	(779)	883
Capitalized building leases	2,704	--	--	(810)	1,894
	$124,154	$13,565	$ 2,075	$(93,743)	$ 41,901
Year ended May 31, 1989					
Land and improvements	$ 24,071	$ --	$ 1,334	$ (7,896)	$ 14,841
Buildings and improvements	95,187	5,526	8,709	(9,569)	82,435
Furniture and equipment	24,470	2,989	4,374	(676	22,409
Leasehold improvements	174	238	198	1,551	1,765
Capitalized building leases	2,704	--	--	--	2,704
	$146,606	$ 8,753	$14,615	$(16,590)	$124,154
Year ended May 31, 1988					
Land and improvements	$ 27,065	$ 41	$ --	$ (3,035)	$ 24,071
Buildings and improvements	77,346	14,851	45	3,035	95,187
Furniture and equipment	20,893	4,263	686	--	24,470
Leasehold improvements	213	19	58	--	174
Capitalized building leases	2,704	--	--	--	2,704
	$128,221	$19,174	$ 789	$ --	$146,606

(1) Includes amounts which have been reclassified in 1990 and 1989 to property and equipment held for sale.

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COMPREHENSIVE CARE CORPORATION

Schedule VI - Accumulated Depreciation and Amortization of Property and Equipment

Years Ended May 31, 1990, 1989 and 1988

	Balance at Beginning of Period	Additions Charged to Expense	Sales and Retirements	Reclassifications(1)	Balance at End of Period
	(Dollars in thousands)				
Year ended May 31, 1990					
Buildings and improvements	$13,359	$3,482	$1,205	$(15,413)	$ 223
Furniture and equipment	11,258	2,401	1,053	(5,037)	7,569
Leasehold improvements	738	175	71	(418)	424
Capitalized building leases	1,726	92	937	(296)	585
	$27,081	$6,150	$3,266	$(21,164)	$ 8,801
Year ended May 31, 1989					
Buildings and improvements	$12,406	$3,682	$1,328	$ (1,401)	$13,359
Furniture and equipment	10,832	2,955	2,139	(390)	11,258
Leasehold improvements	93	159	6	492	738
Capitalized building leases	1,620	106	--	--	1,726
	$24,951	$6,902	$3,473	$ (1,299)	$27,081
Year ended May 31, 1988					
Buildings and improvements	$ 8,893	$3,530	$ 17	$ --	$12,406
Furniture and equipment	8,434	2,961	563	--	10,832
Leasehold improvements	99	21	27	--	93
Capitalized building leases	1,523	97	--	--	1,620
	$18,949	$6,609	$ 607	$ --	$24,951

(1) Includes amounts which have been reclassified in 1990 and 1989 to property and equipment held for sale.

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COMPREHENSIVE CARE CORPORATION

Schedule X - Supplementary Statements of Operations Information

Years Ended May 31, 1990, 1989 and 1988

	Years Ended May 31,		
	1990	1989	1988
	(Dollars in thousands)		
Advertising costs	$7,694	$14,994	$15,472

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

EXHIBIT INDEX

FISCAL YEAR ENDED MAY 31, 1990

Exhibit No.	Description	Sequentially Numbered Page
10.30	Amendment No. 1 to Second Amended and Restated Loan Agreement dated as of July 27, 1990 among the Registrant, certain of its subsidiaries, Union Bank, Southeast Bank, N.A., and The Boatmen's National Bank of St. Louis.	493
10.31	Amendment No. 1 to Collateral Trust Agreement dated as of July 27, 1990 among the Registrant, certain of its subsidiaries, Seattle-First National Bank, Union Bank, Security Pacific National Bank and Southeast Bank, N.A.	503
10.32	Cash Collateral Agreement dated as of July 27, 1990 among the Registrant, CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Coral Springs and Jacksonville Beach Bonds.	515
10.33	Second Amendment to Guaranty Agreement dated as of July 27, 1990 between the Registrant and Southeast Bank, N.A., relating to the Coral Springs Bonds.	537
10.34	Second Amendment to Guaranty Agreement dated as of July 27, 1990 among the Registrant, CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Jacksonville Beach Bonds.	542
10.35	Cash Collateral Agreement dated as of July 27, 1990 among the Registrant, Starting Point Incorporated CareUnit Hospital of Ohio, Inc., certain of the Registrant's subsidiaries and Security Pacific National Bank.	548
10.36	First Amendment to Forbearance Agreement dated as of July 27, 1990 between CareUnit of Florida Inc. and Southeast Bank, N.A., relating to the Coral Springs Bonds.	567
10.37	First Amendment to Forbearance Agreement dated as of July 27, 1990 between CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Jacksonville Beach Bonds.	573
10.38	Second Amendment to Contingent Purchase Agreement dated as of July 27, 1990 between CareUnit of Florida, Inc. and Southast Bank, N.A., relating to the Coral Springs Bonds.	578
10.39	Amendment to Executive Employment Agreement dated as of August 17, 1990 between RehabCare Corporation and James M. Usdan.	584
10.40	Amendment to Executive Employment Agreement dated as of August 17, 1990 between Registrant and Lawrence J. Steudle.	587
10.41	Amendment to Executive Employment Agreement dated as of August 17, 1990 between Registrant and Stephen I. Toth.	590
10.42	Amendment to Executive Employment Agreement dated as of August 17, 1990 between Registrant and Alan C. Henderson.	593
10.43	Amendment to Executive Employment Agreement dated as of August 17, 1990 between Registrant and W. James Nicol.	596
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COMPREHENSIVE CARE CORPORATION

COMMISSION FILE NO. 0-5751

EXHIBITS TO FORM 10-K

FOR THE YEAR ENDED MAY 31, 1990

VOLUME I

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Exhibit 22

COMPREHENSIVE CARE CORPORATION
SCHEDULE OF SUBSIDIARIES

SUBSIDIARY NAME	STATE OR INCORPORATON
NPHS, INC.	California
CAREMANOR HOSPITAL OF WASHINGTON, INC.	Washington
TRINITY OAKS HOSPITAL, INC.	Texas
TERRACINA CONVALESCENT HOSPITAL & HOME, INC.	California
CAREUNIT, INC.	California
CAREUNIT HOSPITAL OF ST. LOUIS, INC.	Missouri
STARTING POINT INCORPORATED	California
CAREUNIT HOSPITAL OF ALBUQUERQUE, INC.	New Mexico
COMPREHENSIVE CARE CORPORATION	Nevada
CAREUNIT CLINIC OF WASHINGTON, INC.	Washington
CAREUNIT HOSPITAL OF OHIO, INC.	Ohio
COMPREHENSIVE CARE CORPORATION (CANADA) LTD.	Canada
REHABCARE CORPORATION	Delaware
CAREUNIT OF CHICAGO, INC.	Illinois
VIDEOHEALTH, INC.	California
CAREUNIT, INC.	Delaware
COMPCARE DELAWARE, INC. (FORMERLY CAREFAST, INC.)	Delaware

EXHIBIT 22

Exhibit 24.1

KPMG Peat Marwick

Certified Public Accountants

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors
Comprehensive Care Corporation:

We consent to the incorporation by reference in the Post-Effective Amendment No. 3 to the Registration Statement (No. 33-6520) on Form S-8 and in the Registration Statement (No. 33-27213) on Form S-8 of Comprehensive Care Corporation of our report dated July 27, 1990 relating to the consolidated balance sheets of Comprehensive Care Corporation and subsidiaries as of May 31, 1990 and 1989 and the related consolidated statements of operations, stockholders' equity and cash flows and related schedules for each of the years in the three-year period ended May 31, 1990, which report appears in the May 31, 1990 annual report on Form 10-K of Comprehensive Care Corporation.

Our report dated July 27, 1990 contains two separate explanatory paragraphs which state:

As discussed in note 16 to the consolidated financial statements, the Company is currently undergoing a payroll tax audit by the Internal Revenue Service for calendar years 1983 through 1988. The IRS agent conducting the audit has verbally asserted that certain physicians and psychologists engaged as independent contractors by the Company should have been treated as employees for payroll tax purposes. The ultimate outcome of this matter cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution of this matter has been recognized in the accompanying consolidated financial statements.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the consolidated financial statements, the Company incurred significant losses from operations in fiscal 1990 and expects to incur losses and negative cash flow from operations during fiscal 1991. The potential need for additional financing to repay debt as it comes due and finance the Company's anticipated losses from operations and negative cash flow during fiscal 1991 raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

KPMG Peat Marwick

St. Louis, Missouri
September 12, 1990

EXHIBIT 24.1