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AUG 29 1991

WITH EXHIBITS

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

MANUALLY SIGNED

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, 1991 — Commission file no. 0-5751

COMPREHENSIVE CARE CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	PROCESSED BY 231/57 AUG 30 1991	95-2594724 (I.R.S. Employer Identification No.)
1795 Clarkson Road Suite 301 Chesterfield, Missouri (Address of principal executive offices)	DISCLOSURE INCORPORATED	63017 (Zip code)

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

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

LHN

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 23, 1991, was $58,631,122.

At August 23, 1991, the Registrant had 21,889,582 shares of Common Stock outstanding.

Documents Incorporated by Reference

Part III incorporates information by reference from the Registrant's definitive proxy statement for the Registrant's annual meeting of shareholders to be held on October 17, 1991, which Proxy Statement will be filed no later than 120 days after the close of the Registrant's fiscal year ended May 31, 1991.

TOTAL NO. OF PAGES 231

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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 or leased and 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 1991, chemical dependency and psychiatric treatment programs accounted for approximately 48% of the Registrant operating revenues. A formerly 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. On July 3, 1991 the Registrant sold 1.7 million of its 4 million shares of common stock of RehabCare in a public offering at $13 per share. The Registrant still retains an approximate 48% interest in RehabCare. The following table sets forth for each of the years in the five-year period ended May 31, 1991, the contribution to operating revenues of the Registrant's freestanding operations, CareUnit, Inc. contracts, RehabCare programs, and its other activities.

	Year Ended May 31,				
	1991	1990	1989	1988	1987
Freestanding operations	34%	53%	62%	58%	53%
CareUnit, Inc. contracts	14	19	21	28	35
RehabCare programs	47	23	12	8	6
Other activities	5	5	5	6	6
	100%	100%	100%	100%	100%

FREESTANDING OPERATIONS

The Registrant currently operates or participates in the operation of 14 facilities representing 1,059 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 1991, the Registrant had a 50% interest in this joint venture. During fiscal 1991, the Registrant closed two chemical dependency facilities, the 100-bed CareUnit of Orlando and the 104-bed CareUnit of Orange. Both facilities are currently listed for sale, as is the 92-bed CareUnit of San Diego facility. 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 upon completion of the replacement facility. In the fourth quarter of fiscal 1991, the Registrant sold the 144-bed CareUnit Hospital of St. Louis to Bethesda Eye Institute of St. Louis, Missouri, for approximately $2 million. Early in the first quarter of fiscal 1992, the Registrant sold the 25-bed Starting Point, Grand Avenue facility in Sacramento, California, to Volunteers of America of Sacramento, California for approximately $0.5 million.

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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 for Year Ended May 31, 1991	1990	1989	1988	1987
Chemical Dependency Facilities							
CareUnit Hospital of Fort Worth	1971	83	10,591	15,612	23,414	22,907	24,139
CareUnit Hospital of Kirkland	1981	83	9,682	12,812	17,136	19,574	18,640
CareUnit of Jacksonville Beach	1982	84	6,119	12,430	28,218	27,613	21,065
CareUnit Hospital of Cincinnati	1982	128	12,131	20,608	30,778	29,446	25,955
Starting Point, Oak Avenue (2)	1983	136	14,639	21,155	36,039	33,882	28,842
Starting Point, Orange County	1983	70	10,349	12,818	18,913	19,109	19,326
CareUnit Hospital of Albuquerque	1984	70	4,522	7,215	15,543	17,187	16,730
CareUnit Hospital of Nevada	1984	50	8,632	11,644	13,626	13,738	11,615
CareUnit of Coral Springs	1985	100	9,611	13,293	22,399	23,639	21,735
CareUnit of Grand Rapids	1985	76	7,662	10,190	15,212	13,483	8,595
CareUnit of Colorado	1988	100	8,730	11,709	16,014	4,303	---
CareUnit of South Florida/Tampa	1988	100	6,957	7,813	14,653	---	---
Psychiatric Facilities							
Crossroads Hospital	1972	41	5,078	6,747	10,942	12,281	14,148
Woodview-Calabasas Hospital	1970	117	13,809	14,318	15,513	19,143	22,473
Closed/Sold Facilities							
Brea Hospital Neuropsychiatric Center(3)			701	15,032	32,240	33,225	39,237
CareUnit Hospital of Orange (4)			5,388	18,737	29,579	32,652	29,697
CareUnit of Orlando (4)			1,492	7,486	18,115	15,844	106
CareUnit of San Diego			---	2,972	13,329	2,872	---
CareUnit Hospital of St. Louis (3)			---	10,117	29,449	24,353	21,278
Sutter Center for Psychiatry			---	9,516	16,761	---	---
Golden Valley Health Center			---	---	31,249	48,877	54,970
CareUnit of DuPage			---	---	10,833	11,969	3,916
CareUnit Behavioral Center of Los Angeles			---	---	---	16,341	16,029
Other closed facilities			---	---	---	2,839	17,873
Patient days served during period			136,093	242,224	459,955	445,277	416,369
Admissions			9,312	14,388	24,715	20,783	17,835
Available beds at end of period (5)			1,059	1,513	1,876	2,067	1,927
Average occupancy rate for period (6)			35%	36%	60%	61%	65%

(1) Calendar year acquired or leased.
(2) Includes Starting Point, Grand Avenue which was sold in July 1991.
(3) In June 1990, the old 142-bed and replacement 151-bed psychiatric facilities at Brea, California, were sold to Community Psychiatric Centers. In April 1991, CareUnit Hospital of St. Louis, a 144-bed chemical dependency facility, was sold to Bethesda Eye Institute.
(4) In October 1990, CareUnit of Orlando, a 100-bed chemical dependency facility, was closed. In February 1991, CareUnit Hospital of Orange, a 104-bed chemical dependency facility was also closed. Both facilities were closed because of significant continuing operating losses.
(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, are delivered under the names CareUnit and Starting Point and include programs for adults and adolescents. Facilities offer a comprehensive treatment program based on therapy and education. The medically based programs utilize a team approach to treatment, with members of the treatment team including a supervising physician, psychologists, counselors, therapists and specially trained nurses. This multi-disciplinary team approach means that the medical, emotional, psychological, social and physical needs of the patient are all addressed in treatment.

Highly individualized care is based on the individual needs of each patient. Facilities offer a broad continuum of care, and with levels of care that include detoxification, inpatient, residential, daytreatment and outpatient programs which meet the evolving needs of patients and their families throughout treatment. Based on careful assessment, each patient is placed into the level of care that is most appropriate for his or her needs. Following assessment, each patient admitted into treatment receives a full medical and social history as well as a physical examination which includes those diagnostic studies ordered by the patient's attending physician. Throughout the course of treatment, each plan is reviewed frequently to ensure that it continues to meet the changing needs of the patient. The length of time spent in treatment is dependent on an individual's need and can range from several weeks to several months.

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. Psychiatric programs also are available on an inpatient, daytreatment and outpatient basis.

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. Each freestanding 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. Eating disorder programs are available on an inpatient, daytreatment and outpatient basis.

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.

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 1991, approximately 90% 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.

Seven of the Registrant's facilities participate in the Medicare program. Of these, four are currently excluded from PPS (TEFRA limits are applicable to these facilities). Medicare utilization at those facilities participating in the Medicare program averaged approximately 12% in fiscal 1991. 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 3% of the Registrant's total operating revenues in freestanding facilities was derived from the CHAMPUS program for the year ended May 31, 1991. 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 2% 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 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 1991, the Registrant spent approximately $1.3 million for all forms of advertising in support of its freestanding operations. Media advertising (television, radio and print) was approximately $1.1 million in fiscal 1991. The forms of media used are specifically tailored to the geographic area in which the marketing efforts are directed.

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.

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 multi-disciplinary 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 years. 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 1991, CareUnit, Inc. continued to experience a decline in the number of contracts and beds in operation. The Registrant believes that the 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.

Responding to market demands, CareUnit, Inc. has implemented, in the majority of its contracts, a program of levels of care, offering a wide range of treatment options including detoxification, inpatient, residential, day-treatment and outpatient. As a result, occupancy rates have declined as patients are moved to a more appropriate level of care.

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

	Year Ended May 31,				
	1991	1990	1989	1988	1987
Number of contracts at end of period (1):					
Adult CareUnits (2)	21	36	68	82	86
Adolescent CareUnits (2)	2	4	12	22	28
Adult CarePsychCenters (2)	4	6	17	21	20
Adolescent CarePsychCenters (2)	0	1	5	6	9
Eating disorders units	2	2	5	4	8
Total	29(3)	49	107	135	151
Available beds at end of period	685	1,210	2,640	3,446	3,860
Patient days served during period	151,219	358,185	616,862	769,255	845,853
Admissions	11,902	23,996	38,225	45,171	48,100
Average occupied beds per contract	10.6	12.9	14.0	14.2	14.5
Average occupancy rate for period (4)	45%	50%	57%	57%	58%

(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 1991, CareUnit, Inc. closed 20 contracts, 8 of which were terminated by CareUnit, Inc. and 12 by the contracting hospitals.
(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. Generally, CareUnit, Inc. receives a negotiated fee for each patient day of service provided and in many cases also receives a fixed monthly management fee. 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.

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 $1.1 million on media advertising for the year ended May 31, 1991. 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 comprehensive physical medicine and rehabilitation programs for the treatment of functionally disabled persons. 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 multi-disciplinary 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, marketing, therapy equipment, public relations, on-going quality assurance, and consultation.

As the demographics of America continues to shift toward an older population, 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, an initial evaluation and assessment is completed by the entire treatment team that results in a rehabilitation care plan designed specifically for the short- and long-term objectives of that patient through the date of discharge. This evaluation may involve the services of several 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
Physical therapy
Speech pathology
Audiology
Orthotics/prosthetics

Nutritional counseling
Psychological counseling
Social work
Respiratory therapy
Occupational therapy

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

RehabCare currently administers all of its inpatient rehabilitation programs, and several outpatient programs, on the premises of host facilities under management contracts. Two outpatient programs are operated at separate sites leased or owned by host hospitals.

As of May 31, 1991, 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's inpatient contract management operations:

	Year Ended May 31,				
	1991	1990	1989	1988	1987
Number of contracts at end of period (1)	51(2)	49	47	33	21
Available beds at end of period	1,022	983	980	682	405
Patient days served during period	238,831	222,357	170,385	109,940	73,027
Admissions	10,677	9,015	6,907	3,932	2,426
Average occupied beds per contract	12.8	12.3	10.7	11.1	11.9
Average occupancy rate for period (3)	63%	61%	52%	54%	59%

(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, 1991.
(2) During the fiscal year ended May 31, 1991, RehabCare opened 4 new contracts and closed 2 contracts. Both of the closed contracts were terminated by the contracting hospital which continued to operate treatment programs, either by its own independent program or in association 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

Generally, RehabCare receives a negotiated fee for each patient day of service and in some cases a monthly management fee. Fees paid to RehabCare are subject to annual adjustments to reflect increases in various indices of inflation. RehabCare and the hospital share the risk of nonpayment by patients and other payers based on collection experience at the facility. RehabCare participates by allowing a predetermined contractual discount to the facility, which generally ranges from 3% to 5%. RehabCare may also participate with a host facility in charity care.

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 provide for initial terms of three to five years and are renewed for successive one-year terms unless either party gives notice of termination at least 90 days prior to the end of such periods. In some cases, a notice of intent to continue the contract must be given at least 90 days in advance of the end of the term. Contracts are also terminable for material defaults, or in some cases, upon the occurence of certain other designated events.

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.

On July 3, 1991, RehabCare and the Registrant completed an initial public offering of 2,500,000 shares of RehabCare common stock. Of the total shares sold to the public, 1,700,000 shares were previously owned by the Registrant and 800,000 shares were new shares issued by RehabCare. Net proceeds to the Registrant totaled approximately $20,553,000, of which approximately $11,286,000 was used to pay a portion of the Registrant's senior secured debt. A gain of approximately $18 million on the sale of the RehabCare shares will be reflected in the Registrant's consolidated statement of operations for the first quarter of fiscal 1992. The Registrant's remaining 48% interest (2,300,000 shares) in RehabCare will be accounted for on the equity method.

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, 1991, 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 1991.

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 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.

Various federal and state laws regulate the relationship between providers of health care services and physicians. These laws include the "fraud and abuse" provisions of the Social Security Act, under which civil and criminal penalties can be imposed upon persons who pay or receive remuneration in return for referrals of patients who are eligible for reimbursement under the Medicare or Medicaid programs. The provisions are broadly written and the full extent of their application is not yet known. The Inspector General of the Department of Health and Human Services is currently in the process of issuing "safe harbor" regulations specifying certain forms of relationships that will not be deemed violations of these provisions. These clarifying regulations may also be followed by more aggressive enforcement of these provisions with respect to relationships that do not fit within the specified safe harbor rules. The Registrant is unable to predict what effect, if any, such regulations will have upon 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, 1991, four 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 July 31, 1991, the Registrant employed approximately 79 persons in its corporate and administrative offices, 1,199 persons in the freestanding and long-term health care facilities operated by it, 166 persons assigned to CareUnit, Inc., and 22 persons in other operations. Not included are 860 persons employed by RehabCare as a result of the July 3, 1991 public offering. 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, 1991:

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 (4), Orange, California	Owned	---	---
CareUnit Hospital, Kirkland, Washington	Leased	2035	$15,942(5)
CareUnit Facility, Jacksonville Beach, Florida	Owned	---	---
CareUnit Hospital, Cincinnati, Ohio	Owned	---	---
Starting Point, Oak Avenue, Orangevale, California	Owned	---	---
Starting Point, Orange County, Costa Mesa, California	Owned	---	---
CareUnit Hospital, Albuquerque, New Mexico	Owned(6)	2012	12,965
CareUnit Hospital, Las Vegas, Nevada	Owned	---	---
CareUnit Facility, Coral Springs, Florida	Owned	---	---
CareUnit Facility, Grand Rapids, Michigan	Leased	1991	12,417
CareUnit Facility (7), Orlando, Florida	Owned	---	---
CareUnit Facility, Aurora, Colorado	Owned	---	---
CareUnit Facility (8), San Diego, California	Owned	---	---
CareUnit Facility, Tampa, Florida	Owned	---	---
Psychiatric Treatment Facilities			
Crossroads Hospital (9), Van Nuys, California	Leased	1997	5,577
Woodview-Calabasas Hospital (10), Calabasas, California	Leased	1996	26,476(11)
Other Operating Facilities			
Tustin Manor, Tustin, California (Intermediate Care Facility)	Leased	1995	20,067(11)
CompCare Publishers, Minneapolis, Minnesota	Leased	1993	7,347
Administrative Facilities			
Corporate Headquarters, Chesterfield, Missouri	Leased	1991	20,977

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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) Closed February 1991. The Registrant intends to sell this property.

(5) Subject to increase every three years based upon increases in the Consumer Price Index, not to exceed 10%.
(6) Constructed on leased land.
(7) Closed October 1990. The Registrant intends to sell this property.
(8) Closed December 1989. The Registrant intends to sell this property.
(9) Leased by a joint venture and managed by the Registrant.
(10) Leased by the Registrant and managed by the Registrant's partner in a joint venture.
(11) 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 plaintiffs allege 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 plaintiffs allege violations of the securities laws during the course of the Registrant's proposed reorganization with First Hospital Corporation and seek 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 Dr. Ronald I. Dozoretz, First Hospital Corporation, and individually certain officers and directors of the Registrant (Case No. 89 CIV. 8003(KTD)). The plaintiffs allege, 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 seek 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, Dr. Ronald I. Dozoretz and the directors of the Registrant (Case No. 89-763-N). The plaintiffs allege 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 and, to date, has not approved 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 Registrant 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. In September 1990, two of the defendants moved to transfer the action to Virginia, which motion was granted as to all defendants in July 1991. No counter claims have been alleged.

On August 15, 1991, a complaint was filed in the United States District Court for the District of Oregon, by George B. Newman and JGN Corporation against the Registrant, certain directors of the Registrant, Dr. Ronald I. Dozoretz, First Hospital Corporation, and Prudential-Bache Securities, Inc. (Case No. 91-759-MA). The plaintiff alleges violations of Oregon and federal securities laws and negligence against all defendants, violations of racketeering laws against Prudential-Bache, violations of common law fraud against all defendants except the Registrant, breaches of fiduciary duty against the director defendants, conspiracy to and breach of fiduciary duty against First Hospital Corporation and Dr. Dozoretz and seeks compensatory damages of $729,208, punitive damages and costs of $2,000,000, disbursements and attorneys' fees.

Other Litigation

On June 17, 1991, a complaint was filed in the United States District Court for the Central District of California, by B. Lee Karns, the former Chairman of the Registrant, against the Registrant and the Registrant's directors (Case No. SACV91-302-AHS(RWRx)). The plaintiff alleges breach of contract and violations of certain provisions of federal law relating to compensation and seeks compensatory damages in the amount of $2,000,000 and attorneys' fees.

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 asserted that certain physicians and psychologists engaged as independent contractors by the Registrant should have been treated as employees for payroll tax purposes. On April 8, 1991, the Registrant received an assessment related to this assertion claiming additional taxes due totaling approximately $19.4 million. Management believes that its treatment of the independent contractors is consistent with IRS guidelines and established industry practice. Management has filed a protest with the IRS and intends to defend vigorously any claims made by the IRS related to this issue; however, management is unable to predict the ultimate outcome of the IRS audit. The Registrant and RehabCare, in May 1991, entered into a Tax Sharing Agreement under which the Registrant will indemnify RehabCare for any claims of income or payroll taxes due for all periods through fiscal 1991.

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.

EXECUTIVE OFFICERS OF THE REGISTRANT

JAMES P. CARMANY, age 52. 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 39. Mr. Simpson was elected Executive Vice President and Chief Operating Officer of the Registrant on August 27, 1990. Mr. Simpson was associated with Mr. Carmany in RxFast, Inc. immediately prior to rejoining the Registrant. 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.

STEPHEN J. TOTH, age 42. 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).

RICHARD C. PETERS, age 51. Mr. Peters joined the Registrant as Executive Vice President on August 1, 1991. He continues to hold the position of President of St. Michael's Group of Florida. Prior to joining the Registrant, he was self-employed as a management consultant from 1990 to 1991. He was Executive Vice President of First Hospital Corporation and President of FHC Options, the managed care division of First Hospital Corp., from 1986 to 1990.

DENNIS C. DICKEY, age 38. Mr. Dickey has been employed by the Registrant since November 1990 as Vice President and Corporate Controller. In July 1991, he was appointed Vice President - Finance. Prior to his employment with the Registrant, Mr. Dickey held the position of Vice President, Controller and other positions with Citicorp Acceptance Company (consumer finance) from 1985 to 1990.

PART II

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

(a) The Registrant's Common Stock is traded on the New York Stock Exchange under the symbol CMP. The following table sets forth the range of high and low sale prices for the Common Stock for the fiscal quarters indicated:

Fiscal Year	Price High	Price Low
1991:		
First Quarter	$ 2-7/8	$1-3/4
Second Quarter	2	1-1/8
Third Quarter	1-7/8	7/8
Fourth Quarter	3-5/8	1-1/8
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

(b) As of July 31, 1991, the Registrant had 2,266 stockholders of record.

(c) As a result of the Registrant's operating losses and restrictions contained in the Registrant's loan agreements, no cash dividend was declared during any quarter of fiscal 1991 or 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. Effective June 1, 1990, the Registrant adopted the new accounting and reporting methods approved by the AICPA in its health care industry audit guide (the AICPA guide) dated July 15, 1990. Accordingly, provision for losses on accounts receivable is included as an expense rather than as a reduction of operating revenues for fiscal 1991. Reclassifications of prior year amounts have been made to conform with the current year's presentation. 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.

	Year Ended May 31,				
	1991	1990	1989	1988	1987
	(Amounts in thousands, except per share data)				
Statement of Operations Data:					
Operating revenues	$ 84,689	$163,235	$247,538	$216,274	$189,951
Costs and expenses:					
Operating, general and administrative	91,388	181,577	226,784	187,827	161,341
Depreciation and amortization	3,580	8,440	8,694	7,757	6,527
Net loss(gain) on sale/write-down of assets	5,863	45,657	(1,363)	---	---
Other nonrecurring expenses	2,819	4,407	1,327	---	---
	103,650	240,081	235,442	195,584	167,868
Operating earnings(loss)	(18,961)	(76,846)	12,096	20,690	22,083
Equity in earnings(loss) of unconsolidated joint ventures	(1,289)	231	25	2,137	4,340
Gain on reorganization agreement	---	5,000	---	---	---
Minority interest in (loss)earnings of consolidated joint ventures	---	508	(989)	(1,382)	(770)
Interest income(expense), net	(6,849)	(8,495)	(9,371)	(6,545)	(2,975)
Earnings(loss) before income taxes	(27,099)	(79,602)	1,761	14,900	22,678
Income tax expense(benefit)	401	(20,294)	1,259	5,930	10,590
Earnings(loss) before extraordinary item	(27,500)	(59,308)	502	8,970	12,088
Extraordinary item - gain on debenture conversion	11,465	---	---	---	---
Net earnings(loss)	$(16,035)	$(59,308)	$ 502	$ 8,970	$ 12,088
Earnings(loss) per common and common equivalent share:					
Earnings(loss) before extraordinary item	$(2.27)	$(5.83)	$ .05	$ .88	$ .90
Extraordinary item - gain on debenture conversion	.95	---	---	---	---
Net earnings(loss)	$(1.32)	$(5.83)	$ .05	$ .88	$ .90
Cash dividends per share	---	---	$ .20	$ .40	$ .36
Weighted average common and common equivalent shares outstanding	12,118	10,172	10,186	12,522	15,360

	As of May 31,				
	1991	1990	1989	1988	1987
	(Dollars in thousands)				
Balance Sheet Data:					
Working capital	$11,221	$ 49,832	$ 36,448	$ 30,047	$ 34,730
Total assets	99,084	141,592	209,520	228,093	214,611
Long-term debt	28,078	86,564	72,232	102,408	95,609
Stockholders' equity	28,976	20,214	79,194	81,470	85,369

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 1991 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 1991 (compared with Fiscal 1990)

The Registrant incurred a loss of approximately $16.0 million or $1.32 per share for the fiscal year ended May 31, 1991, including fourth quarter earnings of approximately $0.3 million or $0.02 per share. Results were impacted by an extraordinary gain of $11.5 million attributable to the conversion of $36.5 million of the Registrant's 7 1/2% convertible subordinated debentures due April 15, 2010 into 11,667,200 shares of common stock. The conversion resulted from the Registrant's voluntary temporary reduction in the conversion price from $25.97 per share to $3.125 per share for a limited period (March 8, 1991 through March 28, 1991) during the fourth quarter. Net loss before the extraordinary gain was $27.5 million or $2.27 per share for the year and $11.1 million or $0.62 for the fourth quarter. Included in the loss for fiscal 1991 were pretax charges of approximately $5.9 million associated with the writedown of the carrying value of certain underperforming assets that the Registrant has sold or designated for disposition, and $2.8 million of nonrecurring expenses primarily related to the failed reorganization with First Hospital Corporation and the contest for the removal of the former Board of Directors by the Shareholders Committee to Rejuvenate CompCare. During fiscal 1990, the Registrant incurred charges of approximately $46 million associated primarily with the writedown of assets sold or designated for disposition and $4.4 million of nonrecurring expenses related to the failed reorganization and certain loan restructuring costs.

As a result of continuing poor utilization of the Registrant's freestanding facilities and behavioral medicine contracts, and the designation of certain facilities as discontinued operations, operating revenues in fiscal 1991 declined by approximately 48%. In response to the decline in revenues, management implemented cost cutting measures which reduced operating, general and administrative expense by approximately 49%. The Registrant also experienced a decline in depreciation and amortization expense of approximately 58%, attributable to designation of certain facilities as property and equipment held for sale. Interest expense was reduced by 23% in fiscal 1991 due to the paydown of senior debt by approximately $8.2 million from the proceeds of the sale of Brea Hospital Neuropsychiatric Center in July 1990; the conversion into equity of approximately $36.5 million of convertible subordinated debentures in March 1991; a debt payment of approximately $0.7 million from the proceeds of the sale of certain undeveloped land in Florida in June 1990; and scheduled debt payments of approximately $1.1 million.

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 1994, although earlier adoption is optional. The Registrant has not determined when it will adopt SFAS 96.

Freestanding Operations

Admissions in fiscal 1991 declined overall by 5,076 to 9,312 from 14,388 in fiscal 1990, an overall decline of 35%. Of this decline, 3,792 fewer admissions were attributable to facilities which were closed or under contract to be sold as of May 31, 1991, which was a decline of 84% for those facilities. The remaining facilities ("same store") experienced a 15% decline in admissions and an 18% decline in length of stay to 14.5 days, resulting in 15% 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 1991				Fiscal 1990			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Admissions	1,283	983	1,003	980	1,138	1,127	1,231	1,325
Average length of stay	13.4	12.7	14.1	14.4	17.4	16.3	17.3	17.4
Patient days	17,242	12,573	14,144	14,136	19,835	18,392	21,243	23,111
Average occupancy rate	45%	34%	38%	37%	52%	49%	57%	61%

Overall operating revenue per patient day decreased by 31% to $247 in fiscal 1991 from fiscal 1990 and overall patient days declined 43% to 136,093, resulting in a decline of approximately $12 million, or 16%, in operating revenues. The Registrant believes that 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 and revenues per patient day. 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 increasing except for a slight decline during the third quarter of fiscal 1991:

	Net Outpatient/Daycare Revenues (Dollars in thousands)							
	Fiscal 1991				Fiscal 1990			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Facilities offering	6	6	6	6	6	6	6	6
Net outpatient/daycare revenues	$1,480	$1,265	$1,276	$1,239	$1,139	$888	$731	$721
% of total "same store" gross operating revenues .	17%	19%	19%	19%	12%	11%	8%	7%

Operating expenses at the Registrant's freestanding facilities decreased $30 million, which more than offset the related decline in revenues. Consequently, operating losses of facilities closed or sold were $4 million compared to an operating loss of $13 million in fiscal 1990, and "same store" operating losses were $2 million in fiscal 1991 versus operating loss of $8 million in the prior year.

In response to these continuing losses, the Registrant will continue to take steps to bring expenses in line with revenues. 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, and one additional facility was designated for disposition in fiscal 1991. The Registrant recorded approximately $5.9 million in asset write-downs during fiscal 1991 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 1991, the Registrant closed two facilities which have been listed for sale. A third facility which was closed in fiscel 1990 is also listed for sale. Additionally, two closed facilities were sold during the year, and a third which had been leased to the buyer was sold in June 1991. The Registrant has also designated another five of its remaining fourteen 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. Two other facilities previously designated for disposition have been redesignated as continuing operations due to improved operating performance. The Registrant will continue to evaluate the performance of all of these facilities in their respective markets, and, if circumstances warrant, may increase or reduce the number of facilities designated for disposition.

Behavioral Medicine Contracts

During fiscal 1991, patient days of service at CareUnit, Inc. contracts declined by approximately 58% from 358,185 patient days to 151,219 patient days. Of this decline, 88,565 patient days related to units sold in fiscal 1990 as part of the Registrant's divestiture of its 70% joint venture interest in Behavioral Medical Care ("BMC"). An additional 92,989 patient days of the decline were associated with unit closures during fiscal years 1990 and 1991. Specifically, 20 units were closed in fiscal 1991. Of the units closed, 8 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 12 closures were terminated by the contracting hospitals upon expiration of their term. The Registrant believes that these non-renewals were influenced primarily by increased competitive pressure of contracted services and changes in reimbursement patterns by third party payers.

Units which were operational for both fiscal years experienced an 18% decline in utilization to 114,580 patient days. Since average net revenue per patient day at these units increased $7, net inpatient operating revenues only declined by 15% to $8.9 million. An additional $2.4 million was generated by units closed during the fiscal year. Outpatient revenues increased 31% from $742,000 in fiscal 1990 to $970,000 in fiscal 1991.

For units operational both fiscal years, operating expenses decreased 1%, which, combined with the 12% decline in inpatient and outpatient operating revenues, caused operating income at the unit level to decline 51%, or $1.2 million, from fiscal 1990. Of the remaining decline in fiscal 1991 unit operating income, $1 million was attributable to the divestiture of BMC units, and $1.1 million was associated with units closed during fiscal 1991. Consequently, unit operating income overall declined to $.6 million in fiscal 1991 from $3.9 million in fiscal 1990.

RehabCare Contracts

Net operating revenue associated with RehabCare contracts during fiscal 1991 increased 19% to $40 million from $34 million in the previous year. Thirty-seven established units accounted for $5 million of the increase. The additional $1 million increase in fiscal 1991 net operating revenues was generated by the net effect of the fourteen units opened and nine units closed during the fiscal years 1990 and 1991. The increase in revenue can be attributed to an 11% increase in revenue per patient day and increased utilization of 8%. The increase in operating revenue per patient day is the result of both a proportionately smaller number of non-exempt units that generate non-billable patient days and increases in underlying contract revenue rates. Operating expenses at the unit level increased $5 million in response to the increased utilization and an increase in the number of full-time equivalent employees.

In the third quarter of fiscal 1990, RehabCare suspended substantially all business development activities due to the cash flow requirements of the Registrant. As a consequence of reduced business development activities, fewer new contract units were opened during fiscal 1990 and 1991, and therefore start-up costs were proportionately lower in these years. Business development activities were curtailed until the third quarter of fiscal 1991. Since that time, RehabCare has increased its expenditures for business development to the prior level, and believes that the resumption of these activities should result in accelerated unit openings in fiscal 1992.

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. Results were primarily impacted by pretax charges of approximately $46 million for fiscal 1990 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% from the prior year 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 in fiscal 1989 to $1.1 million in fiscal 1990 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.

Liquidity and Capital Resources

The Registrant's current assets at May 31, 1991 amounted to approximately $46 million and current liabilities were approximately $35 million, resulting in working capital of approximately $11 million and a current ratio of 1.32 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 $30.1 million at May 31, 1991. 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 1992.

Working capital at May 31, 1991 includes $4.6 million of income tax refunds. 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 failure to maintain a current ratio of 1.25 to 1 until December 31, 1991 and 2.0 to 1 thereafter. On July 3, 1991, the Registrant sold 1.7 million of its 4 million shares of common stock of its formerly wholly owned subsidiary RehabCare, in a public offering at $13 per share. Net proceeds from the sale totaled approximately $20.6 million. Approximately $11.3 million of these net proceeds were used to pay a portion of the Registrant's senior secured debt, $4.6 million of which was applied to current maturities of long-term debt. The Registrant has continued to experience operating losses in fiscal 1992. If such losses continue, the Registrant may not achieve a current ratio of 2.0 to 1 by December 31, 1991. If this 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.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

Years Ended May 31, 1991, 1990 and 1989

000024

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, 1991 and 1990, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 1991, 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 ("IRS") for calendar years 1983 through 1988. The IRS has asserted that certain physicians and psychologists engaged as independent contractors by the Company should have been treated as employees for payroll tax purposes and has issued an assessment claiming additional taxes due on that basis. Management believes that its treatment of the independent contractors is consistent with IRS guidelines and established industry practice. Management has filed a protest to the assessment and intends to defend vigorously the claims made by the IRS related to this issue. Also, as discussed in note 16 to the consolidated financial statements, on August 15, 1991 the Company, along with others, were named in a stockholder complaint filed in District Court related to the terminated reorganization with First Hospital Corporation. Management intends to defend vigorously the claims related to this issue. The ultimate outcome of these matters cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution of these matters 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 1991 and has a substantial portion of its senior secured debt due on May 31, 1992. The potential need for additional financing to repay debt as it comes due and finance the Company's anticipated working capital requirements during fiscal 1992 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
July 31, 1991, except as
to note 16, which is as of
August 15, 1991

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	May 31, 1991	May 31, 1990
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash	$ 3,560	$ 3,884
Accounts and notes receivable, less allowance for doubtful accounts of $8,714 and $10,455	23,569	33,015
Refundable income taxes	4,650	16,400
Property and equipment held for sale	10,278	20,909
Other current assets	4,008	3,563
Total current assets	46,065	77,771
Property and equipment, at cost	45,871	41,901
Accumulated depreciation and amortization	(11,383)	(8,801)
Net property and equipment	34,488	33,100
Investment in unconsolidated joint ventures	3,048	4,449
Property and equipment held for sale	11,218	16,248
Other assets	4,265	10,024
Total assets	$99,084	$141,592

LIABILITIES AND STOCKHOLDERS' EQUITY

	1991	1990
Current liabilities:		
Accounts payable and accrued liabilities	$21,367	$ 26,598
Current maturities of long-term debt	13,106	1,089
Income taxes payable	371	252
Total current liabilities	34,844	27,939
Long-term debt, excluding current maturities	28,078	86,564
Other liabilities	7,186	6,875
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.10 par value; authorized 30,000,000 shares; issued 21,920,863 and 15,253,633 shares	2,192	1,525
Additional paid-in capital	38,743	76,459
Retained earnings (accumulated deficit)	(10,969)	5,066
Less treasury stock; at cost, 80,000 and 5,080,000 shares	(990)	(62,836)
Total stockholders' equity	28,976	20,214
Total liabilities and stockholders' equity	$99,084	$141,592

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

	Year Ended May 31,		
	1991	1990	1989
	(Dollars in thousands, except per share amounts)		
Operating revenues	$ 84,689	$163,235	$247,538
Costs and expenses:			
Operating	70,121	118,978	164,652
General and administrative	21,267	61,599	62,132
Depreciation and amortization	3,580	8,440	8,694
Net loss(gain) on sale/write-down of assets	5,863	45,657	(1,363)
Other nonrecurring expenses	2,819	4,407	1,327
	103,650	240,081	235,442
Operating earnings(loss)	(18,961)	(76,846)	12,096
Equity in earnings(loss) of unconsolidated joint ventures	(1,289)	231	25
Gain on reorganization agreement	---	5,000	---
Minority interest in loss(earnings) of consolidated joint ventures	---	508	(989)
Interest income	531	1,093	747
Interest expense	(7,380)	(9,588)	(10,118)
Earnings(loss) before income taxes	(27,099)	(79,602)	1,761
Provision(benefit) for income taxes	401	(20,294)	1,259
Earnings(loss) before extraordinary item	(27,500)	(59,308)	502
Extraordinary item - gain on debenture conversion	11,465	---	---
Net earnings(loss)	$(16,035)	$(59,308)	$ 502
Earnings(loss) per common and common equivalent share:			
Earnings(loss) before extraordinary item	$(2.27)	$(5.83)	$0.05
Extraordinary item - gain on debenture conversion	.95	---	---
Net earnings(loss)	$(1.32)	$(5.83)	$0.05

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Paid-In Capital	(Accumulated Deficit)	Shares	Amount	Stockholders' Equity
			(Amounts in thousands)				
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
Net loss	---	---	---	(16,035)	---	---	(16,035)
Retirement of treasury stock	(5,000)	(500)	(61,346)	---	5,000	61,846	---
Shares issued upon debenture conversion	11,667	1,167	23,630	---	---	---	24,797
Balance, May 31, 1991	21,921	$2,192	$38,743	$(10,969)	(80)	$ (990)	$28,976

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended May 31,		
	1991	1990	1989
	(Dollars in thousands)		
Cash flows from operating activities:			
Net earnings(loss)	$(16,035)	$(59,308)	$ 502
Adjustments to reconcile net earnings(loss) to net cash provided by(used in) operating activities:			
Depreciation and amortization	3,580	8,440	8,694
Provision for losses on accounts receivable	8,587	19,541	37,627
Loss(gain) on sale/write-down of assets	5,863	45,657	(1,363)
Gain on debenture conversion	(11,465)	---	---
Decrease(increase) in refundable income taxes	11,750	(16,400)	---
Decrease(increase) in accounts and notes receivable	860	2,847	(41,944)
Increase(decrease) in accounts payable and accrued liabilities	(5,231)	2,996	2,698
Decrease(increase) in prepaid and deferred income taxes	119	1,336	(10,163)
Equity in loss(earnings) of unconsolidated joint ventures	1,289	(231)	(25)
Other, net	3,616	(1,064)	392
Net cash provided by(used in) operating activities	2,933	3,814	(3,582)
Cash flows from investing activities:			
Proceeds from sale of property and equipment	10,787	13,064	23,661
Additions to property and equipment	(995)	(13,565)	(5,351)
Increase in carrying value of property and equipment held for sale	(3,152)	---	---
Sale of annuity and insurance policies	---	---	3,706
Proceeds from notes receivable	---	---	808
Long-term loans made	---	---	(953)
Distributions from joint ventures	112	1,368	2,089
Other, net	---	---	(3,235)
Net cash provided by investing activities	6,752	867	20,725
Cash flows from financing activities:			
Repayment of debt	(10,009)	(13,766)	(41,280)
Bank and other borrowings	---	5,000	27,000
Dividends paid	---	---	(3,031)
Other, net	---	328	142
Net cash used in financing activities	(10,009)	(8,438)	(17,169)
Net decrease in cash	(324)	(3,757)	(26)
Cash at beginning of year	3,884	7,641	7,667
Cash at end of year	$ 3,560	$ 3,884	$ 7,641
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 6,925	$ 9,343	$ 9,658
Income taxes	673	1,087	9,259

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
May 31, 1991, 1990 and 1989

Note 1-- Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of Comprehensive Care Corporation (the "Registrant"), and its subsidiaries. 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 90% 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 in the consolidated balance sheets are net of accumulated amortization of $1,890,000 and $1,758,000 at May 31, 1991 and 1990, 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 $175,000, $1,087,000 and $158,000 for the years ended May 31, 1991, 1990 and 1989, 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 expense over the life of the contract.

Cash and Cash Equivalents

Cash in excess of daily requirements is invested in short-term investments with original 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 $398,000 and $1,966,000 at May 31, 1991 and 1990, 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 later than fiscal 1994. 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) by the weighted average number of common and common equivalent shares outstanding during the period. During fiscal 1991, 1990 and 1989, the convertible subordinated 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 12,118,000, 10,172,000 and 10,186,000 for the years ended May 31, 1991, 1990 and 1989, respectively.

Reclassifications

Effective June 1, 1990, the Registrant adopted the new accounting and reporting methods approved by the AICPA in its health care industry audit guide (the AICPA guide) dated July 15, 1990. Accordingly, provision for losses on accounts receivable is included as an expense rather than as a reduction of operating revenues. Reclassifications of prior year amounts have been made to conform with the current year's presentation.

Note 2-- Operating Losses and Liquidity

The Registrant incurred losses before income taxes totaling approximately $27.1 million for the year ended May 31, 1991. Of these losses, approximately $2.8 million represents nonrecurring expenses primarily related to the failed reorganization with First Hospital Corporation and the contest for the removal of the former Board of Directors by the Shareholders Committee to Rejuvenate CompCare. The Registrant's loss on operations for the year ended May 31, 1991 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 other cost cutting measures. 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 and an additional $5.9 million in asset write-downs during fiscal 1991 in connection with the recognition of losses on facilities sold and revaluation of facilities designated for disposition. These amounts include 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 1991, the Registrant closed two facilities, both of which have been listed for sale. Additionally, a facility which was closed in fiscal 1990 is also listed for sale. The Registrant has designated another five of its remaining fourteen 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. In May 1991, as a result of the Registrant's continuing evaluation of the performance of all facilities in their respective markets, an additional facility was designated for disposition. Two facilities previously designated for disposition were redesignated as continuing operations due to their improved operating performance.

The Registrant's current assets at May 31, 1991 amounted to approximately $46 million and its current liabilities were approximately $35 million, resulting in working capital of approximately $11 million and a current ratio of 1.32 to 1. Working capital at May 31, 1991 includes $4.6 million of income tax refunds. 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.

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.

Note 3-- Acquisitions and Dispositions (continued)

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 sale 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.

During fiscal 1991, the Registrant sold two of its freestanding facilities, a psychiatric hospital in Brea, California, and a chemical dependency hospital in St. Louis, Missouri. Additionally, in June 1991, the Registrant sold a chemical dependency facility in Sacramento, California. The loss on sale of these facilities totaled $0.4 million and is included in loss(gain) on sale/writedown of assets in the consolidated financial statement for the year ended May 31, 1991. The Registrant utilized the net proceeds of sale of these facilities 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 for the year ended May 31, 1990 in costs associated with the terminated reorganization. In connection 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 statement of operations for the year ended May 31, 1990.

Note 5-- Accounts and Notes Receivable

Accounts and notes receivable include current notes receivable of $3,015,000 and $933,000 at May 31, 1991 and 1990, respectively. The following table summarizes changes in the Registrant's allowance for doubtful accounts for the years ended May 31, 1991, 1990 and 1989:

	Balance at Beginning of Period	Additions Charged to Expense	Recoveries	Deductions Write-off of Accounts	Balance at End of Period
			(Dollars in thousands)		
Year ended May 31, 1991	$10,455	$ 8,587	$4,021	$14,349	$ 8,714
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

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 $37.3 million and $71.1 million at May 31, 1991 and 1990, respectively, is carried at estimated net realizable value of approximately $21.5 million and $37.2 million at May 31, 1991 and 1990, respectively. In fiscal 1991 and 1990, aggregate losses were recorded totaling approximately $5.9 million and $40.1 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, 1991	May 31, 1990
	(Dollars in thousands)	
Land and improvements	$ 7,525	$ 6,671
Buildings and improvements	25,309	19,872
Furniture and equipment	11,463	12,581
Leasehold improvements	829	883
Capitalized leases	745	1,894
	$45,871	$41,901

Note 8-- Joint Venture Partnerships

The Registrant has 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.

The Registrant has 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, 1991	May 31, 1990
	(Dollars in thousands)	
Assets:		
Current assets	$5,320	$ 5,772
Property and equipment, net	2,429	2,813
Other assets	48	2,545
	$7,797	$11,130
Liabilities and partners' equity:		
Total liabilities	$1,702	$ 2,232
Partners' equity	6,095	8,898
	$7,797	$11,130

Note 8-- Joint Venture Partnerships (continued)

Condensed combined operating results of these joint venture partnerships are as follows:

	Year Ended May 31,		
	1991	1990	1989
		(Dollars in thousands)	
Revenues	$12,798	$17,032	$27,663
Costs and expenses:			
Operating, general and administrative	14,918	16,145	26,625
Depreciation and amortization	458	425	988
	15,376	16,570	27,613
Earnings(loss) before income taxes	$(2,578)	$ 462	$ 50

Note 9-- Other Assets

Other assets consist of the following:

	May 31,	
	1991	1990
	(Dollars in thousands)	
Intangible assets, net	$2,541	$ 2,672
Deferred income tax benefits	---	3,798
Notes receivable	286	117
Deferred contract costs, net	462	582
Other	976	2,855
	$4,265	$10,024

Note 10-- Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	May 31,	
	1991	1990
	(Dollars in thousands)	
Accounts payable and accrued liabilities	$12,124	$15,834
Accrued salaries and wages	4,843	5,174
Accrued vacation	2,235	2,849
Payable to third-party intermediaries	890	1,466
Deferred compensation	1,275	1,275
	$21,367	$26,598

Note 11-- Long-Term Debt

Long-term debt consists of the following:

	May 31,	
	1991	1990
	(Dollars in thousands)	
Senior Secured Debt:		
Term loan, bearing interest at a variable rate, payable monthly, maturing in 1992 (b)(e)	$ 9,168	$13,152
Revolving loan, bearing interest at a variable rate, payable monthly, maturing in 1992 (b)(e)	3,000	3,000
Revenue bonds, bearing interest at 65% of prime, payable monthly, maturing in 1994 (d)(e)	823	1,023
Revenue bonds, bearing interest at 90% of prime, payable quarterly, maturing in 1995 (d)(e)	1,540	2,822
Senior secured notes, bearing interest at 11.4%, payable semi-annually, maturing in 1995 (c)(e)	15,568	19,731
	30,099	39,728
7% to 12% notes, payable in monthly installments with maturity dates through 1995, collateralized by real and personal property having a net book value of $5,418	407	679
7.5% convertible subordinated debentures due 2010 (a)	9,538	46,000
Capital lease obligations	1,011	1,070
Other	129	176
Total long-term debt	41,184	87,653
Less current maturities of long-term debt	13,106	1,089
Long-term debt, excluding current maturities	$28,078	$86,564

As of May 31, 1991, the annual maturities of long-term debt for the next five years are approximately $13,106 in 1992, $4,551 in 1993, $4,987 in 1994, $4,281 in 1995, and $4,070 in 1996.

The maximum amount outstanding of short-term borrowings from banks was approximately $3 million, $25 million and $13 million during the years ended May 31, 1991, 1990 and 1989, 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 $2.8 million, $21.5 million and $11.6 million during the years ended May 31, 1991, 1990 and 1989, 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. On February 20, 1991, the Registrant notified holders of its debentures that it had voluntarily reduced the conversion price for converting the debentures into common stock of the Registrant from $25.97 per share to $3.125 per share for a limited period, pursuant to the indenture under which the debentures were issued. The reduced conversion price was in effect from March 8, 1991, through March 28, 1991. On March 29, 1991, the conversion price reverted to the previous $25.97 per share. Holders of approximately $36.5 million debentures converted their debentures into 11,667,200 shares of common stock. Accordingly, in March 1991 the Registrant recorded an extraordinary gain of approximately $11.5 million, which is the difference between the fair value of the stock issued and the principal amount of the debentures converted net of appropriate costs and taxes.

Note 11-- Long-Term Debt (continued)

(b) At May 31, 1991 and 1990, the Registrant had a term loan and revolving loans outstanding with banks. 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 8.5% at May 31, 1991 and 10% at May 31, 1990). 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. Unamortized origination costs of $365,000 were expensed in fiscal 1991. 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 debt, 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 $9.5 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:

	Year Ended May 31,		
	1991	1990	1989
	(Dollars in thousands)		
Minimum rentals	$ 1,554	$ 2,143	$ 1,865
Contingent rentals	183	152	186
Total rentals	$ 1,737	$ 2,295	$ 2,051

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease; contingent rents associated with capital leases in fiscal 1991, 1990 and 1989 were $195,000, $163,000 and $203,000, respectively. The net book value of capital leases at May 31, 1991 and 1990 was $647,000 and $674,000, 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, 1991:

Fiscal Year	Capital Leases	Operating Leases
	(Dollars in thousands)	
1992	$ 204	$630
1993	204	465
1994	204	327
1995	204	166
1996	162	166
Later years	1,298	2,515
Total minimum lease payments	2,276	$4,269
Less amounts representing interest	1,265	
Present value of net minimum lease payments	$1,011	

Note 13-- Income Taxes

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

	Year Ended May 31,		
	1991	1990	1989
	(Dollars in thousands)		
Current:			
Federal	$ ---	$(15,785)	$4,928
State	401	336	1,363
	401	(15,449)	6,291
Deferred:			
Federal	---	(4,845)	(3,924)
State	---	---	(1,108)
	---	(4,845)	(5,032)
	$ 401	$(20,294)	$1,259

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%) to earnings(loss) before income taxes is as follows:

	Year Ended May 31,		
	1991	1990	1989
	(Dollars in thousands)		
Provision(benefit) for income taxes at the statutory tax rate	$(9,214)	$(27,065)	$ 599
State income taxes, net of federal tax benefit	136	221	168
Amortization of intangible assets	41	95	112
Reorganization expenses	---	(410)	410
Tax effect of net operating loss in excess of amount required to recover prior years' taxes available for carryback	9,410	9,311	---
Additional tax refund due to difference resulting from net operating loss carryback	---	(2,493)	---
Other, net	28	47	(30)
	$ 401	$(20,294)	$1,259

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:

	Year Ended May 31,		
	1991	1990	1989
	(Dollars in thousands)		
Excess tax over book depreciation	$ 857	$ 435	$ 400
Cash basis accounting and different reporting period by joint ventures	(142)	(302)	(1,606)
State income taxes	---	---	353
Deferred compensation expense deductible on a cash basis	(637)	(889)	104
Cash basis accounting by subsidiaries	(692)	(561)	(732)
Employee benefit expenses not currently deductible	467	(126)	(235)
Write-down of assets held for sale not currently deductible	(1,993)	(15,533)	(840)
Bad debt expense for financial reporting purposes less than (greater than) deductible for income tax purposes	398	1,562	(1,634)
Debt restructuring expenses not currently deductible	177	(683)	---
Net deferred tax not currently available for valuation	(4,499)	11,196	---
Deductible operating losses from discontinued operations	2,098	---	---
Excess tax over book losses from sale of assets	4,657	---	---
Other, net	(691)	56	(842)
	$ ---	$(4,845)	$(5,032)

At May 31, 1991, the Registrant had net operating loss carryforwards of approximately $43 million for financial reporting purposes. At May 31, 1991, operating loss carryforwards for income tax purposes totaling approximately $12 million expire in 2006. All benefits from recoverable Federal income taxes paid in prior years (tax carrybacks) were recognized as of May 31, 1990. No further tax carrybacks are available.

Note 14-- Deferred Compensation Plans

The Registrant has a deferred compensation agreement with its former Chairman. The vested unfunded benefits at May 31, 1991 and 1990 of $1,594,000 and $1,609,000, 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. The Registrant's former Chairman commenced receiving payouts in accordance with his agreement on February 1, 1990. Effective January 1, 1991, the Registrant ceased making payments under this agreement and the former Chairman has brought an action against the Registrant under this 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'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 422 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. During fiscal 1991, certain options were granted at $1.25 per share, some of which were in consideration for cancellation of options previously granted in fiscal 1990 at $3.00 per share. The following table sets forth the ISOs granted under the 1988 plan:

	Number of Shares	Option Price	
		Per Share	Aggregate (In thousands)
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	$3.00-8.125	1,017
Options cancelled in fiscal 1991	(10,000)	$3.00	(30)
Options issued or regranted in fiscal 1991	285,000	$1.25	356
Options forfeited in fiscal 1991	(174,102)	$3.00-8.125	543
Balance May 31, 1991	432,500	$1.25-$3.00	$ 800

The per share exercise price of options 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.

Note 15-- Stockholders' Equity (continued)

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 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. During fiscal 1991, nonstatutory options for 90,251 shares expired and nonstatutory options for 200,000 shares were granted at an exercise price of $1.25 per share. The nonstatutory options become exercisable one year after the grant date. In February and August 1991, the Registrant adopted certain amendments to the Registrant's 1988 Nonstatutory Stock Option Plan, subject to shareholder approval, which included an increase in the number of shares under the plan from 200,000 to 400,000 shares. Subject to such shareholder approval, the Registrant granted options to purchase 200,000 shares at $1.25 per share to the outside directors, to vest 100% on the date of the 1992 annual shareholders' meeting. At May 31, 1991 nonstatutory options for 200,000 shares were outstanding at an exercise price of $1.25 per share.

In fiscal 1991, options not under any plan were issued to the Registrant's President and Chief Executive Officer as an inducement essential to his entering an employment contract with the Registrant. Options for 230,000 shares were granted at an exercise price of $1.25 per share. These options become exercisable one year after the grant date.

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.

On August 15, 1991, a stockholder complaint was filed in District Court against the Registrant and others in connection with the terminated reorganization with First Hospital Corporation. The complaint seeks compensatory damages of approximately $700,000, plus $2,000,000 in punitive damages along with other costs and attorney's fees. Management is unable to predict its effect on the Registrant's business.

Note 16-- Commitments and Contingencies (continued)

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 asserted that certain physicians and psychologists engaged as independent contractors by the Registrant should have been treated as employees for payroll tax purposes. On April 8, 1991, the Registrant received an assessment related to this assertion claiming additional taxes due totaling approximately $19.4 million. Management believes that its treatment of the independent contractors is consistent with IRS guidelines and established industry practice. Management has filed a protest with the IRS and intends to defend vigorously any claims made by the IRS related to this issue; however, management is unable to predict the ultimate outcome of the IRS audit. The Registrant and RehabCare, in May 1991, entered into a Tax Sharing Agreement under which the Registrant will indemnify RehabCare for any claims of income or payroll taxes due for all periods through fiscal 1991.

Note 17-- Unaudited Quarterly Results

1 9 9 1	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except per share amounts)			
Operating revenues	$21,079	$20,524	$20,213	$22,873
Costs and expenses	26,691	23,136	21,310	32,513
Operating loss	(5,612)	(2,612)	(1,097)	(9,640)
Equity in earnings(loss) of unconsolidated joint ventures	(39)	(1,325)	49	26
Interest expense, net of interest income	(1,837)	(1,879)	(1,868)	(1,265)
Loss before income taxes	(7,488)	(5,816)	(2,916)	(10,879)
Provision for income taxes	---	---	141	260
Loss before extraordinary gain	(7,488)	(5,816)	(3,057)	(11,139)
Extraordinary item - gain on debenture conversion	---	---	---	11,465
Net earnings(loss)	$(7,488)	$(5,816)	$(3,057)	$ 326
Per share:				
Loss before extraordinary item	$(0.74)	$(0.57)	$(0.30)	$(0.62)
Extraordinary item - gain on debenture conversion	---	---	---	0.64
Net earnings(loss)	$(0.74)	$(0.57)	$(0.30)	$ 0.02

1 9 9 0	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$50,787	$41,971	$35,982	$34,495
Costs and expenses	55,245	53,628	59,267	71,941
Operating 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)
Income tax benefit	(1,774)	(4,263)	(4,793)	(9,464)
Net loss	$(4,672)	$(4,015)	$(20,599)	$(30,022)
Net loss per share	$(0.46)	$(0.39)	$(2.02)	$(2.96)

Certain fiscal 1990 amounts have been reclassified to conform to the fiscal 1991 presentation.

Note 18-- Subsequent Event

On July 3, 1991, RehabCare Corporation ("RehabCare"), a wholly owned subsidiary of the Registrant as of May 31, 1991, and the Registrant completed an initial public offering of 2,500,000 shares of RehabCare common stock. Of the total shares sold to the public, 1,700,000 shares were previously owned by the Registrant and 800,000 shares were new shares issued by RehabCare. Net proceeds to the Registrant totaled approximately $20,553,000, of which approximately $11,286,000 was used to pay a portion of the Registrant's senior secured debt. A gain of approximately $18 million on the sale of the RehabCare shares will be reflected in the Registrant's consolidated statement of operations for the first quarter of fiscal 1992. The Registrant's remaining 48% interest (2,300,000 shares) in RehabCare will be accounted for on the equity method.

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

None

PART III

Item 10 and 11. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT AND EXECUTIVE COMPENSATION.

A definitive proxy statement of Comprehensive Care Corporation will be filed not later than 120 days after the end of the fiscal year with the Securities and Exchange Commission. The information set forth therein under "Election of Directors" and "Executive Compensation" is incorporated herein by reference. Executive Officers of Comprehensive Care Corporation and principal subsidiaries are listed on pages 16-17 of this Form 10-K.

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

Information required is set forth under the caption "Principal Shareholders" and "Election of Directors" in the proxy statement for the 1991 annual meeting of shareholders and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information required is set forth under the caption "Election of Directors" in the proxy statement for the 1991 annual meeting of shareholders and is incorporated herein by reference.

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, May 31, 1991 and 1990
Consolidated statements of operations, years ended May 31, 1991, 1990 and 1989
Consolidated statements of stockholders' equity, years ended May 31, 1991, 1990 and 1989
Consolidated statements of cash flows, years ended May 31, 1991, 1990 and 1989
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 as amended October 9, 1990 (filed herewith)
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 Ohio, Inc. and Security Pacific National Bank, relating to Senior Secured Notes (10)
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 (10)
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 (10)
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 (10)
10.8	Financial Security Plan for executive management and medical directors (10)
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)

Exhibits (continued)

Exhibit Number	Description and Reference
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 (10)
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 (10)
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 (10)
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. (10)
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 (10)
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 (10)
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 (10)
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 (10)
10.26	Amendment No. 3 to the Registrant's Employee Savings Plan dated as of May 24, 1990 (10)
10.27	Executive Employment Agreement dated as of June 1, 1990 between the Registrant and Laurence J. Steudle (10)
10.28	Executive Employment Agreement dated as of June 1, 1990 between the Registrant and Stephen J. Toth (10)
10.29	Cash Collateral Agreement dated as of July 27, 1990 among the Registrant, certain of its subsidiaries and Union Bank (10)
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 (10)
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. (10)
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 (10)
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 (10)
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 (10)
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 (10)
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 (10)
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 (10)
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 (10)
10.39	Amendment to Executive Employment Agreement dated as of August 17, 1990 between RehabCare Corporation and James M. Usdan (10)
10.40	Amendment to Executive Employment Agreement dated as of August 17, 1990 between the Registrant and Laurence J. Steudle (10)
10.41	Amendment to Executive Employment Agreement dated as of August 17, 1990 between the Registrant and Stephen J. Toth (10)
10.42	Amendment to Executive Employment Agreement dated as of August 17, 1990 between the Registrant and Alan C. Henderson (10)
10.43	Amendment to Executive Employment Agreement dated as of August 17, 1990 between the Registrant and W. James Nicol (10)

Exhibits (continued)

Exhibit Number	Description and Reference
10.44	Executive Employees' Trust Agreement dated as of August 17, 1990 between the Registrant and Mark Twain Bank (10)
10.45	Contingent Transition Agreement dated as of August 20, 1990 among the Registrant and certain individual stockholders and certain other entities (10)
10.46	The Registrant's Employees Savings Plan as amended and restated as of June 1, 1991 (filed herewith)
10.47	Employment Agreement dated as of September 1, 1990 between the Registrant and James P. Carmany (filed herewith)
10.48	Employment Agreement dated as of September 1, 1990 between the Registrant and Donald G. Simpson (filed herewith)
10.49	Agreement between the Registrant and Livingston & Company dated April 1, 1991 (filed herewith)
10.50	Shareholder agreement dated as of May 8, 1991 between the Registrant and RehabCare Corporation (11)
10.51	Tax Sharing agreement dated as of May 8, 1991 between the Registrant and RehabCare Corporation (11)
10.52	Employment Agreement dated August 1, 1991 between the Registrant and Richard C. Peters (filed herewith)
11	Computation of Earnings Per Share (filed herewith)
22	List of the Registrant's subsidiaries (filed herewith)
24.1	Consent of KPMG Peat Marwick (filed herewith)

---

(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 10-K for the fiscal year ended May 31, 1990.

(11) Filed as an exhibit to RehabCare Corporation's Form S-1 Registration Statement No. 33-40467.

(b) Reports on Form 8-K

A report on Form 8-K was filed by the Registrant on April 3, 1991, reporting a voluntary temporary reduction in the conversion price for converting its 7 1/2% convertible subordinated debentures due April 15, 2010 and a report of debentures converted into common stock of the Registrant during the reduced conversion price period.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, August 28, 1991.

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)	August 28, 1991
Dennis C. Dickey	Vice President Finance and Corporate Controller (Principal Financial Officer) (Principal Accounting Officer)	August 28, 1991
Harvey G. Felsen	Director	August 28, 1991
Howard S. Groth	Director	August 28, 1991
Robert I. Miller	Director	August 28, 1991
Charles Moore	Director	August 28, 1991
W. James Nicol	Director	August 28, 1991
Michael K. O'Toole	Director	August 28, 1991
Norman L. Perry	Director	August 28, 1991

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Howard S. Groth	Director	August 28, 1991
Robert L. Miller	Director	August 28, 1991
Charles Moore	Director	August 28, 1991
W. James Nicol	Director	August 28, 1991
Michael K. O'Toole	Director	August 28, 1991
Norman L. Perry	Director	August 28, 1991

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Howard S. Groth	Director	August 28, 1991
Robert I. Miller	Director	August 28, 1991
Charles Moore	Director	August 28, 1991
W. James Nicol	Director	August 28, 1991
Michael K. O'Toole	Director	August 28, 1991
Norman L. Perry	Director	August 28, 1991

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Howard S. Groth	Director	August 28, 1991
Robert I. Miller	Director	August 28, 1991
Charles Moore	Director	August 28, 1991
W. James Nicol	Director	August 28, 1991
Michael K. O'Toole	Director	August 28, 1991
Norman L. Perry	Director	August 28, 1991

COMPREHENSIVE CARE CORPORATION

Schedule V - Property and Equipment

Years Ended May 31, 1991, 1990 and 1989

	Balance at Beginning of Period	Additions at Cost	Sales and Retirements	Reclassifications(1)	Balance at End of Period
	(Dollars in thousands)				
Year ended May 31, 1991					
Land and improvements	$ 6,671	$ ---	$ ---	$ 854	$ 7,525
Buildings and improvements	19,872	478	20	4,979	25,309
Furniture and equipment	12,581	456	2,153	579	11,463
Leasehold improvements	883	61	52	(63)	829
Capital leases	1,894	---	1,149	---	745
	$ 41,901	$ 995	$ 3,374	$ 6,349	$ 45,871
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
Capital 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
Capital leases	2,704	---	---	---	2,704
	$146,606	$ 8,753	$14,615	$(16,590)	$124,154

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

COMPREHENSIVE CARE CORPORATION

Schedule VI - Accumulated Depreciation and Amortization of Property and Equipment

Years Ended May 31, 1991, 1990 and 1989

	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, 1991					
Buildings and improvements	$ 223	$1,230	$ 2	$ 213	$ 1,664
Furniture and equipment	7,569	1,190	568	388	8,579
Leasehold improvements	424	172	50	(18)	528
Capital leases	585	27	---	---	612
	$ 8,801	$2,619	$ 620	$ 583	$11,383
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
Capital 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
Capital leases	1,620	106	---	---	1,726
	$24,951	$6,902	$3,473	$ (1,299)	$27,081

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

COMPREHENSIVE CARE CORPORATION

Schedule X - Supplementary Statements of Operations Information

Years Ended May 31, 1991, 1990 and 1989

	1991	1990	1989
	(Dollars in thousands)		
Advertising costs	$3,255	$7,694	$14,994

COMPREHENSIVE CARE CORPORATION

Exhibit 11 - Calculation of Earnings(Loss) Per Share

	Year ended May 31,				
	1991	1990	1989	1988	1987
	(Amounts in thousands, except per share data)				
Primary and Fully Diluted:					
Net earnings(loss) applicable to common stock:					
Net earnings(loss) before extraordinary item (a)	($27,500)	$(59,308)	$502	$11,040	$13,888
Extraordinary item - gain on debenture conversion	11,465	---	---	---	---
Net earnings(loss)	(16,035)	---	---	---	---
Average number of shares of common stock and common stock equivalents outstanding:	12,118	10,172	10,106	10,733	13,583
Additional average number of shares outstanding assuming conversion of 7.5% convertible debentures (c)	---	---	---	1,771	1,771
Dilutive effect of stock options after application of treasury stock method (b)	---	---	80	18	6
Average number of shares of common stock and common stock equivalents	12,118	10,172	10,186	12,522	15,360
Earnings(loss) per common and common equivalent share:					
Net earnings(loss) before extraordinary item	$(2.27)	$(5.83)	$0.05	$0.88	$0.90
Extraordinary item - gain on debenture conversion	.95	---	---	---	---
Net earnings(loss)	$(1.32)	$(5.83)	$0.05	$0.88	$0.90
(a) Net earnings(loss) before extraordinary item per selected financial data	$(27,500)	$(59,308)	$502	$ 8,970	$12,088
Add interest expense attributable to 7.5% convertible subordinated debentures (c)	---	---	---	2,070	1,800
Net earnings(loss) applicable to common stock before extraordinary item	$(27,500)	$(59,308)	$502	$11,040	$13,888

(b) Stock options granted did not have a dilutive effect and were not included in the computation of earnings per share for fiscal 1991 and 1990.

(c) During fiscal 1991, 1990 and 1989, the convertible debentures had an antidilutive impact on earnings per share and accordingly were excluded from the computation.

Exhibit 22

COMPREHENSIVE CARE CORPORATION
SCHEDULE OF SUBSIDIARIES

SUBSIDIARY NAME	STATE OF INCORPORATION
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 24.1

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 31, 1991, except as to note 16, which is as of August 15, 1991, relating to the consolidated balance sheets of Comprehensive Care Corporation and subsidiaries as of May 31, 1991 and 1990 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, 1991, which report appears in the May 31, 1991 annual report on Form 10-K of Comprehensive Care Corporation.

Our report dated July 31, 1991, except as to note 16, which is as of August 15, 1991, 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 ("IRS") for calendar years 1983 through 1988. The IRS has asserted that certain physicians and psychologists engaged as independent contractors by the Company should have been treated as employees for payroll tax purposes and has issued an assessment claiming additional taxes due on that basis. Management believes that its treatment of the independent contractors is consistent with IRS guidelines and established industry practice. Management has filed a protest to the assessment and intends to defend vigorously the claims made by the IRS related to the issue. Also, as discussed in note 16 to the consolidated financial statements, on August 15, 1991 the Company, along with others, were named in a stockholder complaint filed in District Court related to the terminated reorganization with First Hospital Corporation. Management intends to defend vigorously the claims related to this issue. The ultimate outcome of these matters cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution of these matters 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 1991 and has a substantial portion of its senior secured debt due on May 31, 1992. The potential need for additional financing to repay debt as it comes due and finance the Company's anticipated working capital requirements during fiscal 1992 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
August 28, 1991