SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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Form 10-K

MANUALLY SIGNED

(Check One)

_X_ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended May 31, 1992 or

RECD S.E.C.
SEP 14 1992
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____ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ________ to ________
Commission file number 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
SEP 16 1992
DISCLOSURE INCORPORATED

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

16305 Swingley Ridge Drive
Suite 100
Chesterfield, Missouri
(Address of principal executive offices)

63017
(Zip Code)

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

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

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

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

7 1/2% Convertible Subordinated Debentures due 2010
(Title of Class)

National Association of Securities Dealers Automated Quotation System

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 ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes ___ No ___

The aggregate market value of voting stock held by nonaffiliates of the Registrant at September 4, 1992, was $32,149,023.

At August 31, 1992, the Registrant had 21,906,916 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 28, 1992, which Proxy Statement will be filed no later than 120 days after the close of the Registrant's fiscal year ended May 31, 1992.

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PART I

Item 1. BUSINESS.

Comprehensive Care Corporation (the "Company") is a Delaware corporation which was organized in January 1969. The Company is primarily engaged in developing, marketing and managing programs for the treatment of chemical dependency, including alcohol and drugs, and psychiatric disorders. The programs are provided at freestanding facilities operated by the Company and at independent general hospitals under contracts with the Company. A wholly-owned subsidiary, CareUnit, Inc., develops, markets and manages the Company's contract programs. During fiscal 1992, chemical dependency and psychiatric treatment programs accounted for approximately 89% of the Company's operating revenues. A formerly wholly-owned subsidiary of the Company, 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 Company sold 1.7 million of its 4 million shares of common stock of RehabCare in a public offering at $13 per share and on August 27, 1992 RehabCare agreed to redeem 1,875,000 of the remaining shares for $8 per share. The Company will retain approximately 14.5% of the outstanding shares in RehabCare following this redemption. The following table sets forth for each of the years in the five-year period ended May 31, 1992, the contribution to operating revenues of the Company's freestanding operations, CareUnit, Inc. contracts, RehabCare programs and other activities.

	Year Ended May 31,				
	1992	1991	1990	1989	1988
Freestanding operations	75%	34%	53%	62%	58%
CareUnit, Inc. contracts	14	14	19	21	28
RehabCare programs	6	47	23	12	8
Other activities	5	5	5	5	6
	100%	100%	100%	100%	100%

FREESTANDING OPERATIONS

The Company currently operates 12 owned or leased facilities representing 748 available beds. During the third fiscal quarter of 1992, the Company closed the 84-bed CareUnit of Jacksonville Beach.

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

	Year Acquired(1)	Licensed Beds	Patient Days for Year Ended May 31, 1992	1991	1990	1989	1988
Chemical Dependency Facilities							
CareUnit Hospital of Fort Worth . . .	1971	83	13,534	10,591	15,612	23,414	22,907
CareUnit Hospital of Kirkland	1981	83	9,478	9,682	12,812	17,136	19,574
CareUnit Hospital of Cincinnati	1982	128	12,744	12,131	20,608	30,778	29,446
Starting Point, Oak Avenue (2)	1983	136	11,988	14,639	21,155	36,039	33,882
Starting Point, Orange County	1983	70	7,046	10,349	12,818	18,913	19,109
CareUnit Hospital of Albuquerque . .	1984	70	4,098	4,522	7,215	15,543	17,187
CareUnit Hospital of Nevada	1984	50	7,881	8,632	11,644	13,626	13,738
CareUnit of Coral Springs	1985	100	7,617	9,611	13,293	22,399	23,639
CareUnit of Grand Rapids	1985	76	6,221	7,662	10,190	15,212	13,483
CareUnit of Colorado	1988	100	22,070	8,730	11,709	16,014	4,303
CareUnit of South Florida/Tampa . . .	1988	100	6,761	6,957	7,813	14,653	---
Psychiatric Facilities							
Crossroads Hospital (3)	1972	41	1,705	5,078	6,747	10,942	12,281
Closed/Sold Facilities							
Brea Hospital Neuropsychiatric Center (4)			---	701	15,032	32,240	33,225
CareUnit of Jacksonville Beach (5) . .			5,026	6,119	12,430	28,218	27,613
Woodview-Calabasas Hospital (3) . . .			7,913	13,809	14,318	15,513	19,143
CareUnit Hospital of Orange (5)			---	5,388	18,737	29,579	32,652
CareUnit of Orlando (5)			---	1,492	7,486	18,115	15,844
CareUnit of San Diego (5)			---	---	2,972	13,329	2,872
CareUnit Hospital of St. Louis (4) . . .			---	---	10,117	29,449	24,353
Sutter Center for Psychiatry			---	---	9,516	16,761	---
Golden Valley Health Center			---	---	---	31,249	48,877
CareUnit of DuPage			---	---	---	10,833	11,969
CareUnit Behavioral Center of Los Angeles			---	---	---	---	16,341
Other closed facilities			---	---	---	---	2,839
Patient days served during period . . .			124,082	136,093	242,224	459,955	445,277
Admissions			8,859	9,312	14,388	24,715	20,783
Available beds at end of period (7)			748	1,059	1,513	1,876	2,067
Average occupancy rate for period (8) .			38%	29%	39%	64%	61%

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(1) Calendar year acquired or leased.

(2) Includes Starting Point, Grand Avenue which was sold in July 1991.

(3) The Company is currently in negotiations to dissolve, as of December 1991, the joint venture which leased Crossroads Hospital and Woodview-Calabasas Hospital. Crossroads Hospital continues to be managed by the Company although in March 1992 it was closed to inpatient treatment. Woodview-Calabasas continues to be managed by the Company's joint venture partner.

(4) 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.

(5) In February 1992, CareUnit of Jacksonville Beach, an 84-bed chemical dependency facility, was closed. In February 1991, CareUnit Hospital of Orange, a 104-bed chemical dependency facility, was closed and sold in

October 1991. In October 1990, CareUnit of Orlando, a 100-bed chemical dependency facility, was closed. In December 1989, CareUnit of San Diego, a 92-bed chemical dependency facility, was closed. These facilities were closed because of significant continuing operating losses.

(6) 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.

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

Freestanding Facility Programs

The programs offered at a freestanding facility are determined by the licensure of the facility, the needs of the community and reimbursement considerations. A program within the facility represents a separately staffed unit dedicated to the treatment of patients 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, 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 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.

Facilities offer levels of care that include detoxification, inpatient, residential, day treatment and outpatient programs which meet the evolving needs of patients and their families. 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 many of the Company's freestanding facilities. Admission to the programs offered by the Company 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, day treatment and outpatient basis.

Sources of Revenues

During fiscal 1992, approximately 89.5% of the Company'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 many 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, which tends 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. Health insurers have adopted a number of payment mechanisms for the primary purpose of decreasing the amounts paid to hospitals (including the Company'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 Company believes these changing payment mechanisms have had and will continue to have a negative effect on its revenues.

Employers, union trusts and other major purchasers of health care services have become increasingly aggressive in pursuing cost containment. To the extent that major purchasers are self-insured, they actively negotiate with hospitals, Health Maintenance Organizations ("HMOs") and Preferred Provider Organizations ("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 Company's business.

Under the Social Security Amendments Act of 1983, a prospective payment system ("PPS") was adopted to cover routine and ancillary operating costs of most Medicare inpatient hospital services. Under this system, the Secretary of the United States Department of Health and Human Services ("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. Qualified providers of alcohol and drug treatment services are paid under PPS. 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. 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 services will continue to be eligible for exemption from PPS or that other regulatory or legislative changes will not adversely affect the Company's business.

Seven of the Company's facilities participate in the Medicare program. Of these, two are currently excluded from PPS (TEFRA limits are applicable to these facilities). Medicare utilization at those facilities participating in the Medicare program averaged approximately 14% in fiscal 1992. The Company 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 Company'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, and are absorbed by the hospital. In non-emergency admissions (which encompass most of the Company's admissions) review is performed prior to the patient's arrival at the hospital. In the event that the PRO does not approve inpatient admission, the patient may be admitted for outpatient treatment, referred to an alternative treatment provider or sent home. The Company believes that the existence of PROs has reduced inpatient admissions in its facilities serving Medicare patients.

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 Company'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 Company's business.

Competition and Promotion

The Company's primary competitors are hospitals and hospital management companies (both not-for-profit and investor-owned) which offer programs similar to those of the Company. The Company has faced generally increasing competition in the last few years. Some of the hospitals which compete with the Company 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 wide range of services regardless of cost-effectiveness.

Most patients are 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 Company markets its services by attracting these referral sources to its programs. The primary competitive factors in attracting referral sources and patients are marketing, reputation, success record, cost and quality of care, location and scope of services offered at a facility. The Company believes it is competitive in factors necessary for patient attraction. The Company and its competitors also compete to attract qualified physicians and psychiatrists.

The Company has a public relations program designed to increase public awareness of its treatment programs. During fiscal 1992, the Company spent approximately $1.3 million for media advertising (television, radio and print) in support of its freestanding operations. The forms of media used are specifically tailored to the geographic area in which the marketing efforts are directed.

CONTRACT OPERATIONS

CareUnit, Inc. operates contract programs for behavioral medicine services in dedicated units of independent hospitals. The programs offered are similar to the behavioral medicine programs offered in the Company'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. 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. CareUnit, Inc. also 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 ongoing program quality assurance. As a result of reimbursement changes and competitive pressures, the contractual obligations of CareUnit, Inc. have been subject to intense evaluation. In general, some prospective client hospitals have expressed 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 1992, CareUnit, Inc. continued to experience a decline in the number of contracts and beds. The Company believes that the decline in the number of contracts and beds under contract is a result of increased competition generally and reduction in available reimbursement from third parties, which have had the effect of making CareUnit, Inc.'s contracts less profitable to hospitals. In addition, CareUnit, Inc. terminated three 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,				
	1992	1991	1990	1989	1988
Number of contracts at end of period (1):					
Adult CareUnits (2)	15	21	36	68	82
Adolescent CareUnits (2)	1	2	4	12	22
Adult CarePsychCenters (2)	3	4	6	17	21
Adolescent CarePsychCenters (2)	0	0	1	5	6
Eating disorders units	2	2	2	5	4
Total	21 (3)	29	49	107	135
Available beds at end of period	479	685	1,210	2,640	3,446
Patient days served during period	92,574	151,219	358,185	616,862	769,255
Admissions	7,867	11,902	23,996	38,225	45,171
Average occupied beds per contract	9.9	10.6	12.9	14.0	14.2
Average occupancy rate for period (4)	42%	45%	50%	57%	57%

(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 Company markets chemical dependency treatment programs. CarePsychCenter is the service mark under which the Company markets psychiatric treatment programs.

(3) During fiscal 1992, CareUnit, Inc. closed 8 contracts, 3 of which were terminated by CareUnit, Inc. and 5 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 Company's freestanding facilities.

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.

PUBLISHING ACTIVITIES

Since 1976, the Company (under the name CompCare Publishers) has been engaged in the publication, distribution and sale of books, pamphlets and brochures relating to the Company's health care activities. Literature distributed by the Company is sold to patients participating in programs managed by the Company. Such literature is also sold to the general public and educational institutions. The Company does not own or operate the printing facilities used in the publication of its literature. Publishing activities accounted for approximately 5% of the Company's operating revenues in fiscal 1992.

GOVERNMENTAL REGULATION

The development and operation of health care facilities is subject to compliance with various federal, state and local laws and regulations. Health care facilities operated by the Company as well as hospitals under contract with CareUnit, Inc. 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.

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. 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 may cause providers and practitioners alike to abandon certain mutually beneficial relationships. The Company does not believe that any such claims or relationships exist with respect to the Company.

In April 1989, the Inspector General of the Department of HHS 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. Congress adopted legislation in 1989 (effective January, 1992, the "Stark Amendment") that, unless an exemption is otherwise available, prohibits or restricts a physician from making a referral for which Medicare reimbursement may be made to a clinical laboratory with which such physician has a financial relationship and such clinical laboratory may not receive Medicare Reimbursement on account of such referral. On March 11, 1992, proposed regulations implementing the Stark Amendment were issued, but have not been adopted. The Company believes that it is in compliance with the proposed regulations or if not in compliance with any aspect of the regulations the effect will not be material. However, additional legislation has been proposed which would expand the Stark Amendment to other physician and health care business relationships. Should additional legislation be enacted, certain of the Company's relationships with physicians in its contract operations and the Company's development of relationships with physicians could be adversely affected.

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 HHS issued "safe harbor" regulations on July 29, 1991 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 Company 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 Company 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. All of the Company's freestanding facilities are accredited and the Company believes that the hospitals under contract with CareUnit, Inc. have received or have applied for such accreditation.

ADMINISTRATION AND EMPLOYEES

The Company'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, 1992, the Company employed approximately 49 persons in its corporate and administrative offices, 1,037 persons in the freestanding facilities operated by it, 116 persons assigned to CareUnit, Inc., and 21 persons in other operations. The physicians and psychiatrists who are the medical directors of the Company's contract units, the psychologists serving on treatment teams and the physicians utilizing the facilities operated by the Company are not employed by the Company.

The Company 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 Company at May 31, 1992:

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 (9), Kirkland, Washington	Leased	2035	$15,972 (4)
CareUnit Facility (5), Jacksonville Beach, Florida	Owned	---	---
CareUnit Hospital, Cincinnati, Ohio	Owned	---	---
Starting Point, Oak Avenue, Orangevale, California	Owned	---	---
Starting Point, Orange County (9), Costa Mesa, California	Owned	---	---
CareUnit Hospital, Albuquerque, New Mexico	Owned (6)	2012	12,966
CareUnit Hospital, Las Vegas, Nevada	Owned	---	---
CareUnit Facility, Coral Springs, Florida	Owned	---	---
CareUnit Facility, Grand Rapids, Michigan	Leased	1995	7,500
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
Other Operating Facilities			
CompCare Publishers, Minneapolis, Minnesota	Leased	1993	7,701
Administrative Facilities			
Corporate Headquarters, Chesterfield, Missouri	Leased	1997	11,183
Regional Headquarters, Newport Beach, California	Leased	1995	4,200
Data Processing Center, Riverside, California	Leased	1994	3,662

(1) Subject to encumbrances. For information concerning the Company's long-term debt, see note 11 to the Company'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 Company's administrative facilities, are triple net leases under which the Company bears all costs of operations, including insurance, taxes and utilities. The Company is responsible for specified increases in taxes, assessments and operating costs relating to its administrative facilities.

(4) Subject to increase every three years based upon increases in the Consumer Price Index, not to exceed 10%.
(5) Closed February 1992. The Company intends to sell this property.
(6) Constructed on leased land.
(7) Closed October 1990. The Company intends to sell this property.
(8) Closed December 1989. The Company intends to sell this property.
(9) This facility is designated for disposition as of May 31, 1992.

Item 3. LEGAL PROCEEDINGS.

On March 23, 1990, three stockholder class action complaints were consolidated in the United States District Court for the Eastern District of Virginia, against the Company, the directors of the Company and others (Himler et al vs. First Hospital Corp. et al Case No. 89-763-N) alleging violations of the federal securities laws, common law fraud, breach of fiduciary duty and other claims as a result of the terminated reorganization with First Hospital Corp. In June 1990, the Company and the Company's directors entered into an agreement to settle the consolidated stockholder class actions. On August 3, 1990, the District Court denied the plaintiffs' motion for class certification and on December 10, 1991 denied plaintiffs' request to approve the settlement. The case was voluntarily dismissed May 6, 1992, with prejudice, and plaintiffs have appealed the denial of class certification. The plaintiffs' appeal brief is due to be filed in September 1992.

On July 2, 1990, the Company filed an action in the United States District Court for the Southern District of New York against Sovran Bank, N.A. and others (Case No. 90 CIV 4387) for damages in excess of $6 million alleging breach of contract and other contract claims relating to an agreement to finance the 1989 proposed reorganization with First Hospital Corporation and Sovran's subsequent refusal to provide the financing. In July 1991, the case was transferred to the United States District Court for the Eastern District of Virginia, an amended complaint was filed deleting the other defendents, and the action against Sovran Bank is scheduled for trial in October 1992. 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 Company, certain directors of the Company, Dr. Ronald I. Dozoretz, First Hospital Corporation, and Prudential-Bache Securities, Inc. (Case No. 91-759-JO). Three other plaintiffs joined in the action in October 1991. The plaintiffs allege 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 Company, 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 $2.4 million, punitive damages of $2.0 million and attorneys' fees. The case is scheduled for trial in February 1993.

Other Litigation

The Company is currently undergoing a payroll tax audit by the Internal Revenue Service ("IRS") for calendar years 1983 through 1991. The IRS agent conducting the audit asserted that certain physicians and psychologists engaged as independent contractors by the Company should have been treated as employees for payroll tax purposes. On April 8, 1991, the Company received an assessment related to this assertion claiming additional taxes due totaling approximately $19.4 million for calendar years 1983 through 1988. The Company believes that its treatment of the independent contractors is consistent with IRS guidelines and established industry practice. The Company has filed a protest with the IRS and the matter is pending with the Regional Director of Appeals of the Internal Revenue Service. The Company and RehabCare, in May 1991, entered into a Tax Sharing Agreement under which the Company 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 Company 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 Company's business.

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

During the fourth quarter of the Company's fiscal year no matters were submitted to a vote of its security holders.

EXECUTIVE OFFICERS OF THE COMPANY

RICHARD W. WOLFE, age 40. Mr. Wolfe was elected President and Chief Executive Officer of the Company on August 24, 1992. Prior to his election, he was a director of the Company and vice-chairman of the board of directors having been appointed to that position July 1, 1992. Since 1984 Mr. Wolfe has owned and operated nursing homes in Massachusetts, Florida and Georgia for The Hillard Development Corporation and related entities. Prior to 1984 Mr. Wolfe practiced law in Atlanta, Georgia representing a variety of health care providers.

ROBERT H. OSBURN, age 38. Mr. Osburn joined the Company as Executive Vice President on October 1, 1991. Prior to his employment with the Company, he was President of Healthcare Enhancement Systems, which was purchased by CompCare on October 1, 1991. He was President of Versacare Services from February 1988 to October 1989; president of Vanguard Health Care Corp. from August 1986 to February 1988; and served in a variety of administrative and executive capacities with Charter Medical Corp. from November 1978 to March 1986.

STEPHEN J. TOTH, age 43. Mr. Toth was elected Executive Vice President of the Company on September 11, 1990. He has been employed by the Company 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.

DENNIS C. DICKEY, age 39. Mr. Dickey has been employed by the Company since November 1990 as Vice President and Corporate Controller. In July 1991, he was appointed Vice President - Finance. Prior to his employment with the Company, 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 COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a) The Company'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:

	Price	
<u>Fiscal Year</u>	<u>High</u>	<u>Low</u>
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
1992:		
First Quarter	$ 3-7/8	$2-3/8
Second Quarter	3	2
Third Quarter	2-7/8	1-5/8
Fourth Quarter	2-5/8	1-3/8

(b) As of July 31, 1992, the Company had 2,347 stockholders of record.

(c) As a result of the Company's operating losses and restrictions contained in the Company's loan agreements, no cash dividend was declared during any quarter of fiscal 1992 or fiscal 1991. The Company 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 Company'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 Company adopted the new accounting and reporting methods approved by the American Institute of Certified Public Accountants ("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 1992 and 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,				
	1992	1991	1990	1989	1988
	(Amounts in thousands, except per share data)				
Statement of Operations Data:					
Revenues and gains:					
Operating revenues	$59,969	$ 84,689	$163,235	$209,911	$193,573
Gain on sale of RehabCare stock	17,683	---	---	---	---
Gain on reorganization agreement	---	---	5,000	---	---
Interest income	336	531	1,093	747	657
Equity in earnings(loss) of unconsolidated affiliates	168	(1,289)	231	25	2,137
Other	---	---	508	(989)	(1,382)
	78,156	83,931	170,067	209,694	194,985
Costs and expenses:					
Operating expenses	38,810	65,362	100,437	90,725	94,388
General and administrative expenses	12,946	21,267	61,599	62,132	48,037
Provision for doubtful accounts	6,065	4,759	19,541	37,627	22,701
Depreciation and amortization	2,602	3,580	8,440	8,694	7,757
Loss(gain) on sale/write-down of assets	15,986	5,863	45,657	(1,363)	---
Interest expense	3,908	7,380	9,588	10,118	7,202
Other restructuring/non-recurring expenses	2,152	2,819	4,407	---	---
	82,469	111,030	249,669	207,933	180,085
Earnings(loss) before income taxes	(4,313)	(27,099)	(79,602)	1,761	14,900
Provision(benefit) for income taxes	249	401	(20,294)	1,259	5,930
Earnings(loss) before extraordinary item	(4,562)	(27,500)	(59,308)	502	8,970
Extraordinary item - gain on debenture conversion	---	11,465	---	---	---
Net earnings(loss)	$(4,562)	$(16,035)	$(59,308)	$ 502	$ 8,970
Earnings(loss) per common and common equivalent share:					
Earnings(loss) before extraordinary item	$(0.21)	$(2.27)	$(5.83)	$ .05	$ .88
Extraordinary item - gain on debenture conversion	---	.95	---	---	---
Net earnings(loss)	$(0.21)	$(1.32)	$(5.83)	$ .05	$ .88
Cash dividends per share	$ ---	$ ---	$ ---	$ .20	$ .40
Weighted average common and common equivalent shares outstanding	21,900	12,118	10,172	10,186	12,522

	As of May 31,				
	1992	1991	1990	1989	1988
	(Dollars in thousands)				
Balance Sheet Data:					
Working capital	$11,901	$11,221	$ 49,832	$ 36,448	$ 30,047
Total assets	70,422	99,084	141,592	209,520	228,093
Long-term debt	10,375	28,078	86,564	72,232	102,408
Stockholders' equity	24,441	28,976	20,214	79,194	81,470

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 Company's business in fiscal 1992 and 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 1992 (compared with Fiscal 1991)

The Company incurred a loss of approximately $4.6 million or $0.21 per share for the fiscal year ended May 31, 1992, an improvement of $11.4 million or $1.11 per share from the $16.0 million or $1.32 per share loss incurred in the prior fiscal year. Fourth quarter earnings of $0.6 million or $0.03 per share improved from the fourth quarter of the prior fiscal year by $0.3 million or $0.02 per share. Included in the earnings of the fourth quarter of the prior fiscal year was an extraordinary gain of approximately $11.5 million or $0.64 per share.

Results for fiscal 1992 were impacted by a gain of approximately $17.7 million recorded during the first quarter of the fiscal year as a result of the sale by the Company of 1,700,000 shares of its formerly wholly-owned subsidiary RehabCare. The Company retained a 48% interest in RehabCare which has been accounted for on the equity method subsequent to the sale. The Company recorded pretax charges of approximately $16.0 million primarily associated with the write-down of property and equipment held for sale. Of this amount approximately $9.3 million was a result of revaluing certain underperforming assets that the Company has designated for disposition. The remaining $6.7 million was attributable to the write-down to net realizable value of certain hospitals which may be purchased by CMP Properties, Inc. with the proceeds from a proposed public offering of shares of this wholly-owned subsidiary. During fiscal 1991, the Company incurred approximately $5.9 million in charges primarily associated with the revaluation of property and equipment held for sale.

Operating revenues declined $24.7 million or 29% from fiscal 1991, primarily as the result of the elimination of RehabCare revenues from operating results subsequent to the sale of shares in that subsidiary.

Operating expenses decreased by approximately $26.6 million or 41%, and general and administrative expenses declined by approximately $8.3 million or 39% in fiscal 1992. Interest expense was reduced by 47%, primarily as the result of the paydown of senior debt by approximately $16.5 million with the proceeds of asset sales, and the full year impact of the March 1991 conversion into equity of approximately $36.5 million of the Company's convertible subordinated debentures.

Equity in the earnings of unconsolidated affiliates improved by approximately $1.4 million during fiscal 1992, primarily as a result of accounting for RehabCare's earnings on the equity method subsequent to the sale.

The Financial Accounting Standards Board ("FASB") has issued Statement 109, "Accounting for Income Taxes," which supersedes Statement 96, "Accounting for Income Taxes." The Company currently accounts for income taxes under APB 11, having elected not to adopt Statement 96 prior to its required effective date. Statement 109 will change the Company's method of accounting for income taxes from the deferred method required under APB 11 to the asset and liability method. Under the deferred method, annual income tax expense is matched with pretax accounting income by providing deferred taxes at current tax rates for timing differences between the determination of net income for financial reporting and tax purposes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The Company presently does not know and cannot reasonably estimate the impact of Statement 109 on its financial statements.

Statement 109 is effective for fiscal years beginning after December 15, 1992 and earlier adoption is permitted. Statement 109 can be adopted by retroactively restating financial statements for any number of consecutive years before the effective date. In the earliest year restated, or in the year of adoption if no years are restated, the effect of initially applying this new pronouncement shall be reported as the cumulative effect of a change in accounting principle in the results of operations. The Company has not made a determination as to when or by which method it will adopt Statement 109.

Freestanding Operations

Admissions in fiscal 1992 declined overall by 453 to 8,859 from 9,312 in fiscal 1991, an overall decline of 5%. Of this decline, 1,461 fewer admissions were attributable to facilities which were closed or under contract to be sold as of May 31, 1992, which was a decline of 66% for those facilities. The remaining facilities ("same store" i.e., those operational during both fiscal years) experienced a 19% increase in admissions and a 7% decline in length of stay to 13.8 days, resulting in 11% more 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 1992				Fiscal 1991			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Admissions	1,804	1,612	1,617	1,694	1,649	1,318	1,377	1,301
Average length of stay	13.8	13.6	14.4	13.5	14.5	13.9	14.9	15.9
Patient days	24,822	21,971	23,268	22,853	23,952	18,260	20,551	20,712
Average occupancy rate	44%	39%	42%	41%	37%	29%	32%	32%

Overall operating revenue per patient day increased by 58% to $390 in fiscal 1992 from fiscal 1991 and overall patient days declined 2% to 114,596, resulting in an increase of approximately $16 million, or 55%, in operating revenues. The Company 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 patient days. In response to these factors the Company accelerated the development of effective, lower cost outpatient and daycare programs in conjunction with its freestanding facilities, and 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 the increasing revenues in outpatient and daycare programs offered by the freestanding facilities on a "same store" basis:

	Net Outpatient/Daycare Revenues (Dollars in thousands)							
	Fiscal 1992				Fiscal 1991			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Facilities offering	9	9	9	9	9	9	9	9
Net outpatient/daycare revenues	$2,021	$1,938	$1,647	$1,696	$1,543	$1,577	$1,406	$1,527
% of total "same store" net operating revenues	15%	16%	14%	15%	14%	18%	16%	17%

The Company recorded approximately $16.0 million in write-downs of property and equipment held for sale during fiscal 1992. Of this amount $6.7 million is attributable to the write-down to net realizable value of certain hospitals may be purchased by CMP Properties, Inc. with the proceeds from a proposed public offering of shares of this wholly-owned subsidiary. The remaining $9.3 million is as a result of revaluing certain underperforming assets that the Company has prevously designated for disposition and 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 carrying values of these properties may be required. Future operating losses and carrying costs of these facilities designated for disposition will be 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 the fourth quarer of fiscal 1991, two facilities previously designated for disposition were redesignated as continuing operations due to improved performance. In fiscal 1992, the Company closed one facility which is listed for sale. Additionally, a facility closed in fiscal 1991 and one closed in fiscal 1990 are listed for sale. Two facilities closed in prior fiscal years were sold in fiscal 1992. A facility was contributed to the Company's joint venture partner as part of the distribution of assets attributable to the dissolution of the joint venture. The Company has also designated another of its remaining twelve 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 the fourth quarter of fiscal 1992, two other facilities previously designated for disposition have been redesignated as continuing operations due to improved operating performance. The Company 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.

Contract Operations

During fiscal 1992, patient days of service under CareUnit, Inc. contracts declined by approximately 39% from 151,219 patient days to 92,574 patient days. Of this decline, 14,997 patient days were associated with unit closures during fiscal years 1991 and 1992. Specifically, 8 units were closed in fiscal 1992. Of the units closed, 3 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 5 closures were terminated by the contracting hospitals upon expiration of their term. The Company believes that these non-renewals were influenced primarily by increased competition and changes in reimbursement patterns by third-party payers.

Units which were operational for both fiscal years experienced a 10% decline in utilization to 77,066 patient days. Since average net revenue per patient day at these units increased by only $2, net inpatient operating revenues declined by 8% to $6.1 million. An additional $1.2 million was generated by units closed during the fiscal year. Outpatient revenues increased 27% from $623,131 in fiscal 1991 to $851,125 in fiscal 1992.

For units operational in both fiscal years, operating expenses decreased 39%, which more than offset the 4% decline in inpatient and outpatient operating revenues, and caused operating income at the unit level to increase 26%, or $0.3 million, from fiscal 1991. An additional $0.7 million unit operating income was associated with units closed during the year. Consequently, overall unit operating income increased to $1.6 million in fiscal 1992 from $0.6 million in fiscal 1991.

<u>Results of Operations - Fiscal 1991 (compared with Fiscal 1990)</u>

The Company 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 Company's 7.5% convertible subordinated debentures due April 15, 2010 into 11,667,200 shares of common stock. The conversion resulted from the Company'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 write-down of the carrying value of certain underperforming assets that the Company 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 the Company. During fiscal 1990, the Company incurred charges of approximately $46 million associated primarily with the write-down 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 poor utilization of the Company'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 Company 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.

Liquidity and Capital Resources

The Company's current assets at May 31, 1992 amounted to approximately $43.9 million and current liabilities were approximately $32.0 million, resulting in working capital of approximately $11.9 million and a current ratio of 1.4 to 1. Included in current assets are four hospital facilities designed as property and equipment held for sale with a total carrying value of $17.4 million. The Company expects to sell four hospital facilities and lease them back during fiscal 1993. Should the Company be unable to complete the sale/leaseback transactions during fiscal 1993, the Company's working capital may be materially adversely affected. The Company's primary use of working capital is to fund operating losses while it seeks to restore profitability to certain of its freestanding facilities and dispose of the remainder. Senior secured debt totalled approximately $13.6 million at May 31, 1992, of which $8.2 million is due November 15, 1992, and $0.6 million will likely be called October 31, 1992. In March 1992 to fund operations, the Company obtained approximately $1.3 million in short-term borrowings secured by accounts and notes receivable of CareUnit, Inc., bearing interest at 12% per annum, and due August 31, 1992. The Company is unable to meet these maturities from current operations. On August 27, 1992, RehabCare agreed to redeem 1,875,000 shares of RehabCare stock owned by the Company for $15 million, payable $2.5 million by September 14, 1992 and $12.5 million by September 30, 1992. The sale proceeds will be used to repay the short-term borrowings and $8.5 million is required to be applied to senior secured debt under the terms of the collateral agreements with these creditors. This amount, plus scheduled payments, will reduce the Company's senior secured debt to $5 million of which $.2 million will be due October 31, 1992, $1.6 million will be due November 15, 1992 and approximately $3.2 million will be due on August 1, 1993. The remaining secured debt may be repaid from the remaining proceeds or from the sale of additional shares. On March 5, 1992, CMP Properties, Inc., a wholly-owned subsidiary of the Company filed a registration statement with the Securities and Exchange Commission for a public offering of 5,600,000 shares of its common stock. Upon completion of the offering, CMP Properties, Inc. proposes to purchase up to four hospitals from the Company, subject to leaseback or other sale of properties to the Company. Proceeds from any sale/leaseback or other sale of properties may be used to pay the remaining senior secured debt and any excess used to fund operations.

Events of default include failure to meet current debt maturities or to maintain a fixed charge coverage ratio of (0.40) to 1 until October 31, 1992 (extended from June 30, 1992 by lenders) and 2.0 to 1 thereafter. If these or any other events of default should occur and are not waived by the senior secured lenders, the payment of the balance of the Company's long-term debt may be accelerated and working capital would be materially adversely affected.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements and Financial Statement Schedules

Years Ended May 31, 1992, 1991 and 1990

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 as of May 31, 1992 and 1991, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 1992, 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 1991. The IRS 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 recurring losses and has a substantial portion of its senior secured debt due on November 15, 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 1993 raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in notes 2 and 18. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

KPMG Peat Marwick
KPMG Peat Marwick

St. Louis, Missouri
August 27, 1992,
except as to note 18,
which is as of
September 11, 1992

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

ASSETS	May 31, 1992	May 31, 1991
	(Dollars in thousands)	
Current assets:		
Cash and cash equivalents	$ 1,980	$ 3,560
Accounts and notes receivable, less allowance for doubtful accounts of $10,882 and $8,714	16,366	23,569
Refundable income taxes	---	4,650
Property and equipment held for sale	20,424	10,278
Other current assets	5,175	4,008
Total current assets	43,945	46,065
Property and equipment, at cost	6,866	45,871
Less accumulated depreciation and amortization	(2,592)	(11,383)
Net property and equipment	4,274	34,488
Investments in unconsolidated affiliates	4,042	3,048
Property and equipment held for sale	15,144	11,218
Other assets	3,017	4,265
Total assets	$70,422	$99,084

LIABILITIES AND STOCKHOLDERS' EQUITY

	1992	1991
Current liabilities:		
Accounts payable and accrued liabilities	$16,271	$21,367
Short-term borrowings	1,266	---
Current maturities of long-term debt	13,738	13,106
Income taxes payable	769	371
Total current liabilities	32,044	34,844
Long-term debt, excluding current maturities	10,375	28,078
Other liabilities	3,562	7,186
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.10 par value; authorized 30,000,000 shares; issued 21,906,916 and 21,920,863 shares	2,191	2,192
Additional paid-in capital	37,781	38,743
Accumulated deficit	(15,531)	(10,969)
Less treasury stock; at cost, 80,000 shares at May 31, 1991	---	(990)
Total stockholders' equity	24,441	28,976
Total liabilities and stockholders' equity	$70,422	$99,084

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

	Year Ended May 31,		
	1992	1991	1990
	(Dollars in thousands, except per share amounts)		
Revenues and gains:			
Operating revenues	$59,969	$ 84,689	$163,235
Gain on sale of RehabCare stock	17,683	---	---
Gain on reorganization agreement	---	---	5,000
Interest income	336	531	1,093
Equity in earnings(loss) of unconsolidated affiliates	168	(1,289)	231
Other	---	---	508
	78,156	83,931	170,067
Costs and expenses:			
Operating expenses	38,810	65,362	100,437
General and administrative expenses	12,946	21,267	61,599
Provision for doubtful accounts	6,065	4,759	19,541
Depreciation and amortization	2,602	3,580	8,440
Loss on sale/write-down of assets	15,986	5,863	45,657
Interest expense	3,908	7,380	9,588
Other restructuring/nonrecurring expenses	2,152	2,819	4,407
	82,469	111,030	249,669
Loss before income taxes	(4,313)	(27,099)	(79,602)
Provision(benefit) for income taxes	249	401	(20,294)
Loss before extraordinary item	(4,562)	(27,500)	(59,308)
Extraordinary item - gain on debenture conversion	---	11,465	---
Net loss	$(4,562)	$(16,035)	$(59,308)
Loss per common and common equivalent share:			
Loss before extraordinary item	$(0.21)	$(2.27)	$(5.83)
Extraordinary item - gain on debenture conversion	---	.95	---
Net loss	$(0.21)	$(1.32)	$(5.83)

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
	(Amounts in thousands)						
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
Net loss	---	---	---	(4,562)	---	---	(4,562)
Shares issued from treasury stock	---	---	(597)	---	49	602	5
Retirement of treasury stock	(31)	(3)	(385)	---	31	388	---
Exercise of stock options	17	2	20	---	---	---	22
Balance, May 31, 1992	21,907	$2,191	$37,781	$(15,531)	---	$ ---	$24,441

See notes to consolidated financial statements.

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended May 31,		
	1992	1991	1990
	(Dollars in thousands)		
Cash flows from operating activities:			
Net loss	$(4,562)	$(16,035)	$(59,308)
Adjustments to reconcile net loss to net cash provided by(used in) operating activities:			
Depreciation and amortization	2,602	3,580	8,440
Provision for losses on accounts receivable	6,065	4,759	19,541
Gain on sale of RehabCare stock	(17,683)	---	---
Loss on sale/write-down of assets	15,986	5,863	45,657
Gain on debenture conversion	---	(11,465)	---
Carrying costs incurred on property and equipment held for sale	(4,487)	(6,958)	---
Decrease(increase) in refundable income taxes	4,650	11,750	(16,400)
Decrease(increase) in accounts and notes receivable	(3,554)	8,494	2,847
Increase(decrease) in accounts payable and accrued liabilities	(1,719)	(5,231)	2,996
Decrease in prepaid and deferred income taxes	---	119	1,336
Equity in loss(earnings) of unconsolidated affiliates	(168)	1,289	(231)
Other, net	(6,759)	3,616	(1,064)
Net cash provided by(used in) operating activities	(9,629)	(219)	3,814
Cash flows from investing activities:			
Proceeds from sale of property and equipment held for sale	4,700	10,787	13,064
Proceeds from the sale of RehabCare stock	20,553	---	---
Additions to property and equipment	(726)	(995)	(13,565)
Purchase of operating entity	(750)	---	---
Distributions from joint ventures	50	112	1,368
Net cash provided by investing activities	23,827	9,904	867
Cash flows from financing activities:			
Repayment of debt	(17,071)	(10,009)	(13,766)
Bank and other borrowings	1,266	---	5,000
Other, net	27	---	328
Net cash used in financing activities	(15,778)	(10,009)	(8,438)
Net decrease in cash and cash equivalents	(1,580)	(324)	(3,757)
Cash and cash equivalents at beginning of year	3,560	3,884	7,641
Cash and cash equivalents at end of year	$ 1,980	$ 3,560	$ 3,884
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$4,237	$ 6,925	$ 9,343
Income taxes	135	673	1,087

See notes to consolidated financial statements.

Note 1-- Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of Comprehensive Care Corporation (the "Company") and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The Company'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 Company's business is dependent upon the resolution of operating and short-term liquidity problems (see note 2--"Operating Losses and Liquidity").

Revenue Recognition

Approximately 91% of the Company'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 Company 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.

In addition, during fiscal 1993, the Company expects to sell certain freestanding facilities to CMP Properties, Inc. and lease them back (see note 2-- "Operating Losses and Liquidity" and note 6-- "Property and Equipment Held For Sale"). The facilities expected to be sold and leased back are carried at estimated net realizable value which has been reduced for estimated selling costs for these facilities.

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 $448,000 and $1,890,000 at May 31, 1992 and 1991, 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 Company's average interest rate on borrowing when there is no specific borrowing associated with the project. There was no interest capitalized during the year ended May 31, 1992; $175,000 and $1,087,000 was capitalized for the years ended May 31, 1991 and 1990, respectively.

Deferred Contract Costs

The Company 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 Company has paid certain amounts to them. These amounts may be used by the hospitals for capital improvements or as otherwise determined by the hospital. The Company 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 $627,000 and $398,000 at May 31, 1992 and 1991, 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.

The Financial Accounting Standards Board ("FASB") has issued Statement 109, "Accounting for Income Taxes," which supersedes Statement 96, "Accounting for Income Taxes." The Company currently accounts for income taxes under APB 11, having elected not to adopt Statement 96 prior to its required effective date. Statement 109 will change the Company's method of accounting for income taxes from the deferred method required under APB 11 to the asset and liability method. Under the deferred method, annual income tax expense is matched with pretax accounting income by providing deferred taxes at current tax rates for timing differences between the determination of net earnings for financial reporting and tax purposes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The Company presently does not know and cannot reasonably estimate the impact of Statement 109 on its financial statements.

Statement 109 is effective for fiscal years beginning after December 15, 1992 and earlier adoption is permitted. Statement 109 can be adopted by retroactively restating financial statements for any number of consecutive years before the effective date. In the earliest year restated, or in the year of adoption if no years are restated, the effect of initially applying this new pronouncement shall be reported as the cumulative effect of a change in accounting principle in the results of operations. The Company has not made a determination as to when or by which method it will adopt statement 109.

Earnings(Loss) Per Share

Primary and fully diluted earnings(loss) per common and common equivalent share have been computed by dividing net loss by the weighted average number of common and common equivalent shares outstanding during the period. During fiscal 1992, 1991 and 1990, the convertible subordinated debentures had an antidilutive impact on earnings(loss) per share and, accordingly, were excluded from the computation.

The weighted average number of common and common equivalent shares used to calculate earnngs(loss) per share was 21,900,000, 12,118,000 and 10,172,000 for the years ended May 31, 1992, 1991 and 1990, respectively.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation.

Note 2-- Operating Losses and Liquidity

The Company incurred losses before income taxes totaling approximately $4.3 million for the year ended May 31, 1992 which was principally a result of poor utilization of its freestanding facilities and behavioral medicine contracts.

In response to these continuing losses, the Company 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 Company recorded approximately $40.8 million in asset write-downs during fiscal 1990, approximately $5.9 million in asset write-downs during fiscal 1991 and $16.0 million in asset write-downs during fiscal 1992 primarily related to the recognition of losses on facilities sold and revaluation of facilities designated for disposition. These amounts include the estimated future operating losses, selling costs 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 Company closed two facilities, one of which was sold in the second quarter of fiscal 1992 and the other is being offered for sale. A third facility which was closed in fiscal 1990 is also under contract for sale. Additionally, two closed facilities were sold during fiscal 1991, and a third which had been leased to the buyer was sold in the first quarter of fiscal 1992. In the third quarter of fiscal 1992, the Company closed another facility which is currently being offered for sale. In the fourth quarter of fiscal 1992, the Company also redesignated two facilities as continuing operations. At May 31, 1992, three of the Company's remaining twelve operating facilities are designated for disposition. These facilities have been designated for disposition because of their weak market position relative to competitors and limited prospects for generating an acceptable return on investment as operating properties.

The Company's current assets at May 31, 1992 amounted to approximately $43.9 million and current liabilities were approximately $32.0 million, resulting in working capital of approximately $11.9 million and a current ratio of 1.4 to 1. Included in current assets are four hospital facilities designated as property and equipment held for sale with a total carrying value of $17.4 million. The Company expects to sell four hospital facilities and lease them back during fiscal 1993. Should the Company be unable to complete the sale/leaseback transactions during fiscal 1993, the Company's working capital may be materially adversely affected. The Company's primary use of working capital is to fund operating losses while it seeks to restore profitability to certain of its freestanding facilities and dispose of the remainder. Senior secured debt totalled approximately $13.6 million at May 31, 1992, of which $8.2 million is due November 15, 1992, and $0.6 million will likely be called October 31, 1992. In March 1992 to fund operations, the Company obtained approximately $1.3 million in short-term borrowings secured by accounts and notes receivable of a CareUnit, Inc., bearing interest at 12% per annum, and due August 31, 1992. The Company was unable to meet these maturities from current operations (see note 18-"Events Subsequent to the Balance Sheet Date"). On March 5, 1992, CMP Properties, Inc., a wholly-owned subsidiary of the Company, filed a registration statement with the Securities and Exchange Commission for a public offering of 5,600,000 shares of its common stock. Upon completion of the offering, CMP Properties, Inc. proposes to purchase up to four hospitals from the Company, subject to leaseback to the Company. Proceeds from any sale/leaseback or other sale of properties may be used to pay the remaining senior secured debt and any excess used to fund operations while the Company returns to profitability.

Events of default include failure to meet current debt maturities or to maintain a fixed charge coverage ratio of (0.40) to 1 until October 31, 1992 (extended from June 30, 1992 by lenders) and 2.0 to 1 thereafter. If these or any other events of default should occur and are not waived by the senior secured lenders, the payment of the balance of the Company's long-term debt may be accelerated and working capital would be materially adversely affected.

Note 3-- Acquisitions and Dispositions

In fiscal 1990, the Company 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 Company utilized the net proceeds of sale of these assets to reduce its senior secured debt.

During fiscal 1991, the Company 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 Company 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/write-down of assets in the consolidated financial statement for the year ended May 31, 1991. The Company utilized the net proceeds of sale of these facilities to reduce its senior secured debt.

On July 3, 1991, RehabCare Corporation ("RehabCare"), a wholly-owned subsidiary of the Company as of May 31, 1991, and the Company 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 sold by the Company and 800,000 shares were new shares issued by RehabCare. Net proceeds to the Company totaled approximately $20.6 million, of which approximately $11.3 million was used to pay a portion of the Company's senior secured debt. A gain of approximately $18 million on the sale of the RehabCare shares was recorded in the Company's consolidated statement of operations for the first quarter of fiscal 1992. The Company's remaining 48% interest (2,300,000 shares) in RehabCare is accounted for on the equity method.

In November 1991, the Company sold its CareUnit Hospital of Orange which was closed in February 1991. The Company utilized the net proceeds of this sale to reduce its senior secured debt. In February 1992, the Company sold its long-term care facility in Tustin, California as an operating facility. The Company is currently in negotiation to dissolve the joint venture which leased Crossroads Hospital and Woodview-Calabasas Hospital as of December 1991. Crossroads continues to be managed by the Company although in March 1992 it was closed to inpatient treatment. Woodview-Calabasas Hospital continues to be managed by its joint venture partner.

Note 4-- Proposed Reorganization

In fiscal 1989, the Company entered into a proposed reorganization with First Hospital Corporation ("First Hospital") whereby the Company'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 Company 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 Company $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 Company 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 $662,000 and $3,015,000 at May 31, 1992 and 1991, respectively. The following table summarizes changes in the Company's allowance for doubtful accounts for the years ended May 31, 1992, 1991 and 1990:

	Balance at Beginning of Year	Additions Charged To: Expense	Additions Charged To: Property and Equipment Held for Sale	Recoveries	Deductions: Write-off of Accounts	Balance at End of Year
	(Dollars in thousands)					
Year ended May 31, 1992 . . .	$ 8,714	$6,065	$2,777	$3,815	$10,489	$10,882
Year ended May 31, 1991 . . .	10,455	4,759	3,828	4,021	14,349	8,714
Year ended May 31, 1990 . . .	16,355	19,541	---	4,149	29,590	10,455

Note 6-- Property and Equipment Held for Sale

The Company 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 $63.1 million and $37.3 million at May 31, 1992 and 1991, respectively, is carried at estimated net realizable value of approximately $35.6 million and $21.5 million at May 31, 1992 and 1991, respectively. In fiscal 1992, 1991 and 1990, aggregate losses were recorded totaling approximately $15.2 million, $5.8 million and $39.9 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. Operating revenues and operating expenses of the facilities designated for disposition were approximately $14.2 million and $18.7 million, respectively, for the year ended May 31, 1992, and $23.6 million and $30.6 million, respectively, for the year ended May 31, 1991.

A summary of the transactions affecting the carrying value of property and equipment held for sale is as follows:

	Year Ended May 31,		
	1992	1991	1990
	(Dollars in thousands)		
Beginning balance	$21,496	$37,157	$12,969
Designation of facilities as property and equipment held for sale	29,456	1,532	73,861
Proceeds from sale of assets	(4,700)	(12,371)	(9,755)
Carrying costs incurred during phase-out period	4,487	6,958	---
Loss on sale/write-down of facilities	(15,171)	(5,795)	(39,918)
Redesignation of facilities as continuing operations	---	(5,985)	---
Ending balance	$35,568	$21,496	$37,157

Property and equipment held for sale at May 31, 1992 includes certain hospitals proposed for inclusion in sale/leaseback transactions carried at estimated net realizable value totaling $27.8 million.

Note 7-- Property and Equipment

Property and equipment consists of the following:

	Year Ended May 31,	
	1992	1991
	(Dollars in thousands)	
Land and improvements	$ ---	$ 7,525
Buildings and improvements	2,963	25,309
Furniture and equipment	3,440	11,463
Leasehold improvements	463	829
Capitalized leases	---	745
	$6,866	$45,871

Note 8-- Investments in Unconsolidated Affiliates

The Company has a joint venture partnership with another corporation for the purpose of operating two hospitals. Under the terms of the joint venture agreement, the Company manages one of the hospitals and its partner manages the other. Each of the partners in the joint venture receives a management fee for the hospital it manages. The Company has a 50% interest in the joint venture. The Company is currently in negotiation to dissolve this joint venture as of December 1991. The Company will retain the hospital it manages and its partner will retain the other. The results of operations of the hospital to be retained have been included in the consolidated results of operations beginning January 1, 1992.

The Company 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 Company 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 purchaser was forced into receivership in January 1992. The Company has a 50% interest in the joint venture.

As of May 31, 1992, the Company owned 48% of the outstanding common stock of RehabCare (a wholly-owned subsidiary prior to its initial public offering which was completed on July 3, 1991) which is carried on the equity method. Carrying value, cost and market value of the Company's remaining investment in RehabCare was $4.0 million, $3.1 million and $19.6 million, respectively, at May 31, 1992 (see note 18--"Events Subsequent to the Balance Sheet Date") regarding the redemption of additional shares by RehabCare in September 1992. The condensed operating results of affiliates for fiscal 1992 include the results of RehabCare subsequent to July 3, 1991.

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

	May 31, 1992	May 31, 1991
	(Dollars in thousands)	
Assets:		
Current assets	$16,992	$5,320
Property and equipment, net	1,329	2,429
Other assets	2,210	48
	$20,531	$7,797
Liabilities and equity:		
Total liabilities	$ 3,523	$1,702
Equity	17,008	6,095
	$20,531	$7,797

Condensed combined operating results of affiliates are as follows:

	Year Ended May 31, 1992	1991	1990
	(Dollars in thousands)		
Revenues	$47,854	$12,798	$17,032
Costs and expenses:			
Operating, general and administrative	45,500	14,918	16,145
Depreciation and amortization	559	458	425
	46,059	15,376	16,570
Earnings(loss) before income taxes	1,795	(2,578)	462
Income taxes	1,360	---	---
Net earnings(loss)	$ 435	$(2,578)	$ 462

Note 9-- Other Assets

Other assets consist of the following:

	May 31, 1992	May 31, 1991
	(Dollars in thousands)	
Intangible assets, net	$1,136	$2,541
Notes receivable	129	286
Deferred contract costs, net	191	462
Other	1,561	976
	$3,017	$4,265

Note 10-- Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	May 31, 1992	May 31, 1991
	(Dollars in thousands)	
Accounts payable and accrued liabilities	$10,590	$12,124
Accrued salaries and wages	2,308	4,843
Accrued vacation	1,149	2,235
Payable to third-party intermediaries	899	890
Deferred compensation	1,325	1,275
	$16,271	$21,367

Note 11-- Long-Term Debt

Long-term debt consists of the following:

	May 31, 1992	May 31, 1991
	(Dollars in thousands)	
Senior secured debt:		
Term loan, bearing interest at a variable rate, payable monthly, maturing in 1992 (b)(e)	$ 1,245	$ 9,168
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)	600	823
Revenue bonds, bearing interest at 90% of prime, payable quarterly, maturing in 1995 (d)(e)	75	1,540
Senior secured notes, bearing interest at 11.4%, payable semiannually, maturing in 1995 (c)(e)	8,687	15,568
	13,607	30,099
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 $4,277	157	407
7.5% convertible subordinated debentures due 2010 (a)	9,538	9,538
Capital lease obligations	733	1,011
Other	78	129
Total long-term debt	24,113	41,184
Less current maturities of long-term debt	13,738	13,106
Long-term debt, excluding current maturities	$10,375	$28,078

As of May 31, 1992, aggregate annual maturities of long-term debt for the next five years (in accordance with stated maturities of the respective loan agreements) are approximately $9,051 in 1993, $4,095 in 1994, $743 in 1995, $34 in 1996 and $30 in 1997.

The maximum amount outstanding of short-term borrowings was approximately $4.2 million, $3 million and $25 million during the years ended May 31, 1992, 1991 and 1990, respectively. The average amount outstanding of such borrowings, based upon an average of month-end balances for periods when the Company had such debt outstanding, was $3.2 million, $2.8 million and $21.5 million during the years ended May 31, 1992, 1991 and 1990, respectively. Weighted average interest rates for short-term borrowings were 8.63%, 10.58% and 13.60% for the years ended May 31, 1992, 1991 and 1990, respectively.

(a) In April 1985, the Company issued $46 million in convertible subordinated debentures. These debentures require that the Company make semi-annual 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 Company 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 Company 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 Company notified holders of its debentures that it had voluntarily reduced the conversion price for converting the debentures into common stock of the Company 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 Company 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.

(b) At May 31, 1992 and 1991, the Company 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 Company 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 Company's assets to further collateralize these borrowings and revised the maturity dates and repayment provisions of the Company'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. 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 Company's assets. 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. The banks have agreed to further extend the maturity of the debt to November 15, 1992 or upon completion of its sale of certain properties to CMP Properties, Inc. Outstanding bank borrowings bear interest, payable monthly, at prime plus 1% (prime rate was 6.5% at May 31, 1992 and 8.5% at May 31, 1991).

(c) In July 1988, the Company and two subsidiaries of the Company issued $20 million in senior secured notes to a group of insurance companies. The notes were originally secured by three of the Company's freestanding facilities. See also note (e) below. Performance of the subsidiaries' obligations under the notes is guaranteed by the Company. The notes originally provided for the payment of interest at a fixed rate of 10.5% per annum. The notes require principal payments 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 Company 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. In July 1992, the trust indenture was further amended to extend the maturity date for the August 1, 1992 installment of principal to November 15, 1992.

(d) The Company 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 Company's guarantee require that the Company 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 Company 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 Company 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. The forbearance agreements have been further amended, and the holder of the bonds agreed not to exercise its rights to cause the Company to repurchase the revenue bonds until the earlier of October 31, 1992, or the date on which the bank indebtedness is paid.

(e) On May 3, 1990, the Company entered into a Collateral Trust Agreement for the benefit of the holders of the Company's senior secured debt, that is, the banks, the insurance companies and the revenue bondholder. Under this agreement, substantially all the Company'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 Company'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 Company's senior debt. In addition, during periods when the Company is in default under its senior debt, the Company 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 Company 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,		
	1992	1991	1990
	(Dollars in thousands)		
Minimum rentals	$1,393	$1,554	$2,143
Contingent rentals	59	183	152
Total rentals	$1,452	$1,737	$2,295

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease; contingent rents associated with capital leases in fiscal 1992, 1991 and 1990 were $60,000, $195,000 and $163,000, respectively. The net book value of capital leases at May 31, 1992 and 1991 was $513,000 and $647,000, 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, 1992:

Fiscal Year	Capital Leases	Operating Leases
	(Dollars in thousands)	
1993	$ 132	$ 951
1994	132	674
1995	132	491
1996	132	360
1997	132	320
Later years	1,166	2,376
Total minimum lease payments	1,826	$5,172
Less amounts representing interest	1,093	
Present value of net minimum lease payments	$ 733	

Note 13-- Income Taxes

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

	Year Ended May 31,		
	1992	1991	1990
	(Dollars in thousands)		
Current:			
Federal	$139	$ ---	$(15,785)
State	110	401	336
	249	401	(15,449)
Deferred:			
Federal	---	---	(4,845)
State	---	---	---
	---	---	(4,845)
	$249	$401	$(20,294)

COMPREHENSIVE CARE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
May 31, 1992, 1991 and 1990

A reconciliation between benefit from income taxes and the amount computed by applying the statutory Federal income tax rate (34%) to loss before income taxes is as follows:

	Year Ended May 31,		
	1992	1991	1990
	(Dollars in thousands)		
Benefit from income taxes at the statutory tax rate	$(1,466)	$(9,214)	$(27,065)
State income taxes, net of federal tax benefit	73	136	221
Amortization of intangible assets	23	41	95
Reorganization expenses	---	---	(410)
Tax effect of net operating loss in excess of amount required to recover prior years' taxes available for carryback	1,459	9,410	9,311
Additional tax refund due to difference resulting from net operating loss carryback	---	---	(2,493)
Alternative minimum tax expense in excess of regular tax expense	139	---	---
Other, net	21	28	47
	$ 249	$ 401	$(20,294)

Total benefit from 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,		
	1992	1991	1990
	(Dollars in thousands)		
Excess tax over book depreciation	$ (9)	$ 857	$ 435
Cash basis accounting and different reporting period by joint ventures	22	(142)	(302)
Equity in earnings of unconsolidated affiliates	416	---	---
Deferred compensation expense deductible on a cash basis	1,425	(637)	(889)
Cash basis accounting by subsidiaries	(383)	(692)	(561)
Employee benefit expenses not currently deductible	76	467	(126)
Write-down of assets held for sale not currently deductible	(5,145)	(1,993)	(15,533)
Bad debt expense for financial reporting purposes less than (greater than) deductible for income tax purposes	(1,074)	398	1,562
Debt restructuring expenses not currently deductible	177	177	(683)
Net deferred tax not currently available for valuation	3,778	(4,499)	11,196
Deductible operating losses from discontinued operations	1,782	2,098	---
Excess tax over book losses from sale of assets	(968)	4,657	---
Other, net	(97)	(691)	56
	$ ---	$ ---	$(4,845)

The Company is subject to alternative minimum tax at a 20% rate on alternative minimum taxable income which is determined by making statutory adjustments to the Company's regular taxable income. Net operating loss carryforwards may be used to offset only 90% of the Company's alternative taxable income. The Company is subject to alternative minimum tax expense of $139,000 in 1992. This amount will be allowed as a credit carryover against regular tax in the event that regular tax expense exceeds the alternative minimum tax expense.

At May 31, 1992, the Company had net operating loss carryforwards of approximately $48 million for financial reporting purposes. For tax purposes, the Company has operating loss carryforwards of approximately $9.7 million for regular tax and approximately $10.4 million for alternative minimum tax which 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-- Employee Benefit Plans

The Company had a deferred compensation agreement with its former Chairman. The vested unfunded benefits at May 31, 1991 of $1,594,000 was accrued by the Company. The Company utilized an 8% discount rate in determining the present value of vested unfunded past service cost. In October 1991, the Company's former Chairman agreed to accept $1.2 million as payment in full for the Company's obligation under this plan.

The Company had deferred compensation plans for its key executives and medical directors. Under provisions of these plans, participants elected to defer receipt of a portion of their compensation to future periods. Upon separation from the Company, participants received payouts of their deferred compensation balances over periods from five to fifteen years. Effective January 1, 1989, participants were not offered the opportunity to defer compensation to future periods. In June 1992, the Company terminated the plan and placed the remaining participants on 5-year payments. The consolidated balance sheet as of May 31, 1992 reflects the current obligation to the participants under the plan.

The Company has an Employee Savings Plan, which is a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code, for the benefit of its eligible employees . All full-time and part-time employees who have attained the age of 21 and have completed six consecutive months of employment are eligible to participate in the plan. Each participant may contribute from 2% to 12% of his compensation to the plan subject to limitations on the highly compensated employees to ensure the plan is non-discriminatory. The Company did not make any matching contributions to the plan in fiscal years 1992, 1991 and 1990.

Note 15-- Stockholders' Equity

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

The Company has a 1988 Incentive Stock Option Plan and a 1988 Nonstatutory Stock Option Plan (the "1988 Plans"). 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. In fiscal 1992, the 1988 Incentive Stock Option Plan and 1988 Nonstatutory Stock Option Plan were amended to increase the total number of shares reserved for issuance under the plans and to expand the class of eligible persons under the nonstatutory plan to include advisors and consultants. Options granted under the 1988 Nonstatutory Stock Option Plan do not qualify as ISOs. The maximum number of shares subject to option are 1,500,000 and 400,000 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 activity related to ISOs for the years ended May 31, 1992, 1991 and 1990:

	Number of Shares	Option Price Per Share	Option Price Aggregate (In thousands)
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 canceled 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
Options exercised in fiscal 1992	(17,334)	$1.25	(22)
Options canceled in fiscal 1992	(42,500)	$2.125	(90)
Options issued or regranted in fiscal 1992	492,500	$2.125-3.38	1,057
Options forfeited in fiscal 1992	(100,000)	$1.25-3.00	(283)
Balance, May 31, 1992	765,166	$1.25-3.38	$1,456

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 Company adopted certain amendments to the Company's 1988 Nonstatutory Stock Option Plan, which included an increase in the number of shares under the plan from 200,000 to 400,000 shares. In February, 1991, the Company granted options to purchase 120,000 shares at $1.25 per share to the Company's outside directors, which vest in October 1992. At May 31, 1992 nonstatutory options to purchase 320,000 shares were outstanding at an exercise price of $1.25 per share.

Options under the 1988 Plans to purchase 381,416 shares and 36,875 shares were exercisable as of May 31, 1992 and 1991, respectively.

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.

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.

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

On April 19, 1988, the Company 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 Company'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 Company's common stock. In the event that a person acquires 25% or more of the Company's common stock or if the Company 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 Company 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 Company's common stock.

Note 16-- Commitments and Contingencies

In fiscal 1990 three stockholder class action complaints were filed (and subsequently consolidated) against the Company and others in connection with the terminated reorganization with First Hospital Corporation. In June 1990, the Company and the Company's directors entered into an agreement to settle the consolidated stockholder class actions. On August 3, 1990, the United States District Court denied the plaintiffs' motion for class certification and on December 10, 1991 denied plaintiffs' request to approve the settlement. The case was voluntarily dismissed May 6, 1992, with prejudice, and plaintiffs have appealed the denial of class certification. The plaintiffs' appeal brief is due to be filed in September 1992.

On August 15, 1991, a stockholder complaint was filed in District Court against the Company and others in connection with the terminated reorganization with First Hospital Corporation. The complaint seeks compensatory damages of approximately $2,400,000, plus $2,000,000 in punitive damages along with other costs and attorney's fees. Management is unable to predict its effect on the Company's business.

In addition to the foregoing matters, the Company 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 Company's business.

The Company is currently undergoing a payroll tax audit by the Internal Revenue Service ("IRS") for calendar years 1983 through 1991. The IRS agent conducting the audit asserted that certain physicians and psychologists engaged as independent contractors by the Company should have been treated as employees for payroll tax purposes. On April 8, 1991, the Company received an assessment related to this assertion claiming additional taxes due totaling approximately $19.4 million for calendar years 1983 through 1988. 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 Company and RehabCare, in May 1991, entered into a Tax Sharing Agreement under which the Company will indemnify RehabCare for any claims of income or payroll taxes due for all periods through fiscal 1991.

Note 17-- Unaudited Quarterly Results

(Dollars in thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1992				
Revenues and gains	$35,588	$12,774	$13,181	$16,613
Costs and expenses	20,899	14,305	31,342	15,923
Loss before income taxes	14,689	(1,531)	(18,161)	690
Provision for income taxes	5,044	(453)	(4,410)	68
Earnings(loss) before extraordinary item	9,645	(1,078)	(13,751)	622
Extraordinary item - utilization(reduction in utilization) of net operating loss carryforwards	4,994	(520)	(4,474)	---
Net earnings(loss)	$14,639	$(1,598)	$(18,225)	$ 622
Per share:				
Loss before extraordinary item	$0.44	$(0.05)	$(0.63)	$0.03
Extraordinary item - utilization(reduction in utilization) of net operating loss carryforwards	0.23	(0.02)	(0.20)	---
Net earnings(loss)	$0.67	$(0.07)	$(0.83)	$0.03
1991				
Revenues and gains	$21,181	$19,368	$20,406	$22,976
Costs and expenses	28,669	25,184	23,322	33,855
Loss before income taxes	(7,488)	(5,816)	(2,916)	(10,879)
Provision for income taxes	---	---	141	260
Loss before extraordinary item	(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

Certain reclassifications of quarterly amounts have been made to conform to the full year presentation.

Note 18-- Events Subsequent to the Balance Sheet Date

On August 27, 1992, RehabCare agreed to redeem 1,875,000 shares of RehabCare stock owned by the Company for $15 million payable by September 30, 1992. Proceeds from this transaction will be used to repay the short-term borrowings, to repay a portion of senior secured debt, and the remainder will be used for working capital purposes.

The net proceeds of this transaction will not be sufficient to repay all remaining balances of senior secured and secured debt and the Company does not expect to meet the remaining maturities from operations. The Company does not expect to be able to comply with certain financial covenants and provisions of its senior secured debt agreements, as amended, beyond October 31, 1992. As of September 11, 1992 the Company is negotiating with its senior secured lenders to obtain amendments to its various debt agreements to modify the repayment terms, financial covenants, and collateral provisions. If these or other events of default are not waived by the senior secured lenders, the payment of the balances of the Company's long-term debt may be accelerated and working capital would be materially adversely affected. Management is unable to predict the outcome of these negotiations. No provision for any liability that may result from the resolution of this matter has been recognized in the accompanying consolidated financial statements.

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 COMPANY AND EXECUTIVE COMPENSATION.

A definitive proxy statement of Comprehensive Care Corporation will be filed no 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 page 12 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 1992 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 1992 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, 1992 and 1991

Consolidated statements of operations, years ended May 31, 1992, 1991 and 1990

Consolidated statements of stockholders' equity, years ended May 31, 1992, 1991 and 1990

Consolidated statements of cash flows, years ended May 31, 1992, 1991 and 1990

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 (2)
3.2	Restated Bylaws as amended October 9, 1990 (7)
4.1	Indenture dated April 25, 1985 between the Company and Bank of America, NT&SA, relating to Convertible Subordinated Debentures (1)
4.2	Trust Indenture dated as of July 1, 1988 among the Company, Starting Point Incorporated, CareUnit Hospital of Ohio, Inc., and Security Pacific National Bank, relating to Senior Secured Notes (4)
4.3	Rights Agreement dated as of April 19, 1988 between the Company and Security Pacific National Bank (3)
4.4	First Amendment to Trust Indenture dated as of April 30, 1990 among the Company, Starting Point Incorporated, CareUnit Hospital of Ohio, Inc. and Security Pacific National Bank, relating to Senior Secured Notes (5)
4.5	Second Amendment to Trust Indenture dated as of July 27, 1990 among the Company, Starting Point Incorporated, CareUnit Hospital of Ohio, Inc. and Security Pacific National Bank, relating to Senior Secured Notes (5)
10.1	Standard form of CareUnit Contract (4)
10.2	Standard form of CarePsychCenter Contract (4)
10.3	Form of Individual Death Benefit Agreement (5)
10.4	Financial Security Plan for executive management and medical directors (5)
10.5	Form of Stock Option Agreement (4)
10.6	Form of Indemnity Agreement (4)
10.7	Second Amended and Restated Loan Agreement dated as of May 3, 1990 among the Company, certain of its subsidiaries, Union Bank, Southeast Bank, N.A., and The Boatmen's National Bank of St. Louis (5)
10.8	First Amendment to Guaranty Agreement dated as of May 3, 1990 between the Company and Southeast Bank, N.A., relating to the Coral Springs Bonds (5)

Exhibits (continued)

Exhibit Number	Description and Reference
10.9	Collateral Trust Agreement dated as of May 3, 1990 among the Company, certain of its subsidiaries, Seattle-First National Bank, Union Bank, Security Pacific National Bank and Southeast Bank, N.A. (5)
10.10	First Amendment to Guaranty Agreement dated as of May 3, 1990 among the Company, CareUnit of Florida, Inc. and Southeast Bank, N.A. relating to the Jacksonville Beach Bonds (5)
10.11	Forbearance Agreement dated as of May 3, 1990 between CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Coral Springs Bonds (5)
10.12	Forbearance Agreement dated as of May 3, 1990 between CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Jacksonville Beach Bonds (5)
10.13	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 (5)
10.14	Executive Employment Agreement dated as of June 1, 1990 between the Company and Stephen J. Toth (5)
10.15	Cash Collateral Agreement dated as of July 27, 1990 among the Company, certain of its subsidiaries and Union Bank (5)
10.16	Amendment No. 1 to Second Amended and Restated Loan Agreement dated as of July 27, 1990 among the Company, certain of its subsidiaries, Union Bank, Southeast Bank, N.A. and The Boatmen's National Bank of St. Louis (5)
10.17	Amendment No. 1 to Collateral Trust Agreement dated as of July 27, 1990 among the Company, certain of its subsidiaries, Seattle-First National Bank, Union Bank, Security Pacific National Bank and Southeast Bank, N.A. (5)
10.18	Cash Collateral Agreement dated as of July 27, 1990 among the Company, CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Coral Springs and Jacksonville Beach Bonds (5)
10.19	Second Amendment to Guaranty Agreement dated as of July 27, 1990 between the Company and Southeast Bank, N.A., relating to the Coral Springs Bonds (5)
10.20	Second Amendment to Guaranty Agreement dated as of July 27, 1990 among the Company, CareUnit of Florida, Inc. and Southeast Bank, N.A., relating to the Jacksonville Beach Bonds (5)
10.21	Cash Collateral Agreement dated as of July 27, 1990 among the Company, Starting Point Incorporated, CareUnit Hospital of Ohio, Inc., certain of the Company's subsidiaries and Security Pacific National Bank (5)
10.22	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 (5)
10.23	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 (5)
10.24	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 (5)
10.25	Amendment to Executive Employment Agreement dated as of August 17, 1990 between the Company and Stephen J. Toth (5)
10.26	Executive Employees' Trust Agreement dated as of August 17, 1990 between the Company and Mark Twain Bank (5)
10.27	Contingent Transition Agreement dated as of August 20, 1990 among the Company and certain individual stockholders and certain other entities (5)
10.28	The Company's Employees Savings Plan as amended and restated as of June 1, 1991 (7)
10.29	Employment Agreement dated as of September 1, 1990 between the Company and James P. Carmany (7)
10.30	Employment Agreement dated as of September 1, 1990 between the Company and Donald G. Simpson (7)

Exhibits (continued)

Exhibit Number	Description and Reference
10.31	Agreement between the Company and Livingston & Company dated April 1, 1991 (7)
10.32	Shareholder Agreement dated as of May 8, 1991 between the Company and RehabCare Corporation (6)
10.33	Tax Sharing Agreement dated as of May 8, 1991 between the Company and RehabCare Corporation (6)
10.34	Employment Agreement dated August 1, 1991 between the Company and Richard C. Peters (6)
10.35	Agreement between Company and Livingston & Co. dated December 21, 1991 (filed herewith).
10.36	Option Agreement with Richard W. Wolfe dated July 1, 1992 (filed herewith).
10.37	Redemption Agreement dated September 1, 1992 between RehabCare and Company (filed herewith).
10.38	Executive Employment Agreement dated as of October 1, 1991 between the Company and Robert H. Osburn (filed herewith).
10.39	Amendment Number Three to Second Amended and Restated Loan Agreement dated July 15, 1992 between the Company and Union Bank (filed herewith).
10.40	1988 Incentive Stock Option and 1988 Nonstatutory Stock Option Plans, as amended (filed herewith).
10.41	Third Amendment to Forbearance Agreement dated July 31, 1992 between the Company and First Union National Bank of Florida, the successor in interest to the Federal Deposit Insurance Corporation as receiver of Southeast Bank, N.A. (filed herewith).
10.42	Waiver of debt covenants of the Trust Indenture dated May 29, 1992 between the Company and Northwestern National Life Insurance Company et al. (filed herewith).
10.43	Deferral Agreement dated July 31, 1992 between the Company et al and Security Pacific National Bank as Trustee for Northwestern National Life Insurance Company et al. (filed herewith).
11	Computation of Earnings(Loss) Per Share (filed herewith).
22	List of the Company's subsidiaries (filed herewith).
24.1	Consent of KPMG Peat Marwick (filed herewith).

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(1) Filed as an exhibit to the Company's Form S-3 Registration Statement No. 2-97160.
(2) Filed as an exhibit to the Company's Form 10-Q for the quarter ended August 31, 1986.
(3) Filed as an exhibit to the Company's Form 8-K dated May 4, 1988.
(4) Filed as an exhibit to the Company's Form 10-K for the fiscal year ended May 31, 1988.
(5) Filed as an exhibit to the Company's Form 10-K for the fiscal year ended May 31, 1990.
(6) Filed as an exhibit to RehabCare Corporation's Form S-1 Registration Statement No. 33-40467.
(7) Filed as an exhibit to the Company's Form 10-K for the fiscal year ended May 31, 1991.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the fourth quarter of fiscal 1992.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, September 12, 1992.

COMPREHENSIVE CARE CORPORATION

By Richard W. Wolfe, Pres
Richard W. Wolfe
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
Richard W. Wolfe, Pres Richard W. Wolfe	President (Chief Executive Officer)	September 12, 1992
Dennis C. Dickey	Vice President Finance and Corporate Controller (Principal Financial Officer) (Principal Accounting Officer)	September 12, 1992
Harvey G. Felsen	Director	September 12, 1992
Howard S. Groth	Director	September 12, 1992
Charles Moore	Director	September 12, 1992
W. James Nicol	Director	September 12, 1992
Michael K. O'Toole	Director	September 12, 1992
Norman L. Perry	Director	September 12, 1992

COMPREHENSIVE CARE CORPORATION

Schedule V - Property and Equipment

Years Ended May 31, 1992, 1991 and 1990

(Dollars in thousands)

	Balance at Beginning of Period	Additions at Cost	Sales and Retirements	Reclassifications(1)	Balance at End of Period
Year ended May 31, 1992					
Land and improvements	$ 7,525	$ ---	$ ---	$ (7,525)	$ ---
Buildings and improvements	25,309	337	56	(22,627)	2,963
Furniture and equipment	11,463	403	2,330	(6,096)	3,440
Leasehold improvements	829	11	377	---	463
Capitalized leases	745	---	745	---	---
	$ 45,871	$751	$3,508	$(36,248)	$6,866
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
Capitalized 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
Capitalized leases	2,704	---	---	(810)	1,894
	$124,154	$13,565	$ 2,075	$(93,743)	$ 41,901

(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, 1992, 1991 and 1990

	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, 1992					
Buildings and improvements	$ 1,664	$1,268	$ 8	$(2,053)	$ 871
Furniture and equipment	8,579	982	1,246	(6,977)	1,338
Leasehold improvements	528	66	308	97	383
Capitalized leases	612	52	631	(33)	---
	$11,383	$2,368	$2,193	$(8,966)	$2,592
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
Capitalized 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
Capitalized leases	1,726	92	937	(296)	585
	$27,081	$6,150	$3,266	$(21,164)	$ 8,801

(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, 1992, 1991 and 1990

	1992	1991	1990
	(Dollars in thousands)		
Advertising costs	$2,557	$3,255	$7,694

COMPREHENSIVE CARE CORPORATION

EXHIBIT INDEX

FISCAL YEAR ENDED MAY 31, 1992

COMPREHENSIVE CARE CORPORATION

Commission File No. 0-5751

Exhibits to Form 10-K

For the year ended May 31, 1992

COMPREHENSIVE CARE CORPORATION

Exhibit 11 - Calculation of Earnings(Loss) Per Share

	Year Ended May 31,				
	1992	1991	1990	1989	1988
	(Amounts in thousands, except per share data)				
Primary and Fully Diluted:					
Earnings(loss) applicable to common stock:					
Earnings(loss) before extraordinary item (a) . . .	$(4,562)	$(27,500)	$(59,308)	$502	$11,040
Extraordinary item - gain on debenture conversion . . .	---	11,465	---	---	---
Net earnings(loss) . . .	$(4,562)	$(16,035)	$(59,308)	$502	$11,040
Average number of shares of common stock and common stock equivalents outstanding . . .	21,900	12,118	10,172	10,106	10,733
Additional average number of shares outstanding assuming conversion of 7.5% convertible subordinated debentures (c) . . .	---	---	---	---	1,771
Dilutive effect of stock options after application of treasury stock method (b) . . .	---	---	---	80	18
Average number of shares of common stock and common stock equivalents . . .	21,900	12,118	10,172	10,186	12,522
Earnings(loss) per common and common equivalent share:					
Earnings(loss) before extraordinary item . . .	$(0.21)	$(2.27)	$(5.83)	$0.05	$0.88
Extraordinary item - gain on debenture conversion . . .	---	.95	---	---	---
Net earnings(loss) . . .	$(0.21)	$(1.32)	$(5.83)	$0.05	$0.88
(a)Earnings(loss) before extraordinary item per selected financial data . . .	$(4,562)	$(27,500)	$(59,308)	$502	$ 8,970
Add interest expense attributable to 7.5% convertible subordinated debentures (c) . . .	---	---	---	---	2,070
Net earnings(loss) applicable to common stock before extraordinary item . . .	$(4,562)	$(27,500)	$(59,308)	$502	$11,040

(b)Stock options granted did not have a dilutive effect and were not included in the computation of earnings per share for fiscal 1992, 1991 and 1990.

(c)During fiscal 1992, 1991, 1990 and 1989, the convertible debentures had an antidilutive impact on earnings per share and, accordingly, were excluded from the computation.

EXHIBIT 22

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
CMP Properties, Inc.	Oregon
CareUnit of Florida, Inc.	Florida
CareUnit Hospital of Nevada, Inc.	Nevada

EXHIBIT 24.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS EXHIBIT 24.1

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 August 27, 1992, except as to note 18, which is as of September 11, 1992, relating to the consolidated balance sheets of Comprehensive Care Corporation and subsidiaries as of May 31, 1992 and 1991, 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, 1992, which report appears in the May 31, 1992 annual report on Form 10-K of Comprehensive Care Corporation.

Our report dated August 27, 1992, except as to note 18, which is as of September 11, 1992, 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 1991. The IRS 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 1992 and has a substantial portion of its senior secured debt due on November 15, 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 1993 raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in notes 2 and 18. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

KPMG Peat Marwick
KPMG Peat Marwick

St. Louis, Missouri
August 27, 1992,
except as to note 18,
which is as of
September 11, 1992

KPMG Peat Marwick