CORVEL CORP
Form 10-Q
August 07, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

or

o **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 0-19291

CORVEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	33-0282651
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2010 Main Street, Suite 600 Irvine, CA	92614
(Address of principal executive office)	(zip code)

Registrant s telephone number, including area code: (949) 851-1473

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares outstanding of the registrant s Common Stock, $0.0001 par value per share, as of July 29, 2009 was 12,889,668.

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EX-32.2

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Part I Financial Information
Item 1. Financial Statements
CORVEL CORPORATION
CONSOLIDATED BALANCE SHEETS

	March 31, 2009	June 30, 2009 (Unaudited)
Assets		
Current Assets		
Cash and cash equivalents (Note A)	$ 14,681,000	$ 20,240,000
Accounts receivable, net	41,249,000	42,991,000
Prepaid taxes and expenses	4,841,000	3,312,000
Deferred income taxes	4,531,000	4,475,000
Total current assets	65,302,000	71,018,000
Property and equipment, net	29,790,000	28,756,000
Goodwill	34,852,000	34,910,000
Other intangibles, net	7,495,000	7,347,000
Other assets	3,770,000	3,691,000
TOTAL ASSETS	$ 141,209,000	$ 145,722,000
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts and taxes payable	$ 18,553,000	$ 17,480,000
Accrued liabilities	18,653,000	17,534,000
Total current liabilities	37,206,000	35,014,000
Deferred income taxes	7,706,000	7,872,000
Commitments and contingencies (Note I)		
Stockholders Equity		
Common stock, $.0001 par value: 60,000,000 shares authorized; 25,600,022 shares issued (12,917,279 shares outstanding, net of Treasury shares) and 25,633,195 shares issued (12,920,776 shares outstanding, net of Treasury shares) at March 31, 2009 and June 30, 2009, respectively	3,000	3,000
Paid-in capital	84,321,000	85,103,000
Treasury Stock (12,682,743 shares at March 31, 2009 and 12,712,419 shares at June 30, 2009)	(185,762,000)	(186,409,000)

Retained earnings		197,735,000		204,139,000
Total stockholders equity		96,297,000		102,836,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	141,209,000	$	145,722,000

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CORVEL CORPORATION

CONSOLIDATED INCOME STATEMENTS UNAUDITED

	Three Months Ended June 30,	
	2008	2009
REVENUES	$ 78,201,000	$ 81,312,000
Cost of revenues	58,268,000	60,170,000
Gross profit	19,933,000	21,142,000
General and administrative expenses	10,807,000	10,450,000
Income before income tax provision	9,126,000	10,692,000
Income tax provision	3,559,000	4,288,000
NET INCOME	$ 5,567,000	$ 6,404,000
Net income per common and common equivalent share		
Basic	$ 0.40	$ 0.50
Diluted	$ 0.40	$ 0.49
Weighted average common and common equivalent shares		
Basic	13,816,000	12,925,000
Diluted	14,045,000	13,056,000

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	Three Months Ended June 30, 2008	2009
Cash flows from Operating Activities		
NET INCOME	$ 5,567,000	$ 6,404,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,970,000	2,944,000
Loss on disposal of assets	10,000	19,000
Stock compensation expense	384,000	499,000
Write-off of uncollectible accounts	536,000	953,000
Changes in operating assets and liabilities		
Prepaid taxes and expenses	(654,000)	1,529,000
Accounts receivable	(1,104,000)	(2,695,000)
Other assets	286,000	93,000
Accounts and taxes payable	1,791,000	(1,535,000)
Accrued liabilities	(1,243,000)	(1,119,000)
Deferred income tax	(118,000)	684,000
Net cash provided by operating activities	8,425,000	7,776,000
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,642,000)	(1,856,000)
Net cash (used in) investing activities	(2,642,000)	(1,856,000)
Cash Flows from Financing Activities		
Purchase of treasury stock	(3,706,000)	(647,000)
Excess tax benefit from share based compensation	528,000	15,000
Exercise of common stock options	1,244,000	271,000
Net cash (used in) financing activities	(1,934,000)	(361,000)
Increase in cash and cash equivalents	3,849,000	5,559,000
Cash and cash equivalents at beginning of period	17,911,000	14,681,000
Cash and cash equivalents at end of period	$ 21,760,000	$ 20,240,000

Supplemental Cash Flow Information:

Income taxes paid	$ 143,000	$ 645,000
Accrual of earn-out related to acquistion	800,000	

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note A Basis of Presentation and Summary of Significant Accounting Policies

The unaudited financial statements herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying interim financial statements have been prepared under the presumption that users of the interim financial information have either read or have access to the audited financial statements for the latest fiscal year ended March 31, 2009. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the March 31, 2009 audited financial statements have been omitted from these interim financial statements.

Effective this quarter, the Company implemented Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events, or SFAS 165. This standard establishes general standards of accounting for and disclosure events that occur after the balance sheet date but before financial statements are issued. In accordance with SFAS 165, the Company evaluated all events or transactions that occurred after June 30, 2009 up through July 31, 2009, the date the Company issued these consolidated financial statements. During this period the Company did not have any material recognizable subsequent events.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2010. For further information, refer to the consolidated financial statements and footnotes for the fiscal year ended March 31, 2009 included in the Company s Annual Report on Form 10-K.

Basis of Presentation: The consolidated financial statements include the accounts of CorVel and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements conforming with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts, accrual for bonuses, earn-out accruals, accruals for self-insurance reserves, share based payments related to performance based awards, and estimates used in stock option valuations.

Cash and Cash Equivalents: Cash and cash equivalents consists of short-term, highly-liquid investment-grade interest-bearing securities with maturities of 90 days or less when purchased. The carrying amounts of the Company s financial instruments approximate their fair values at March 31, 2009 and June 30, 2009.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note A Basis of Presentation and Summary of Significant Accounting Policies (continued)

Revenue Recognition: The Company s revenues are recognized primarily as services are rendered based on time and expenses incurred. A certain portion of the Company s revenues are derived from fee schedule auditing which is based on the number of provider charges audited and on a percentage of savings achieved for the Company s customers. The Company generally recognizes revenue when there is persuasive evidence of an arrangement, the services have been provided to the customer, the sales price is fixed or determinable, and collectability is reasonably assured. The Company reduces revenue for estimated contractual allowances and records any amounts invoiced to the customer in advance of service performance as deferred revenue.

Accounts Receivable: The majority of the Company s accounts receivable are due from companies in the property and casualty insurance industries. Credit is extended based on evaluation of a customer s financial condition and, generally, collateral is not required. Accounts receivable are due within 30 days and are stated as amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company s previous loss history, the customer s current ability to pay its obligation to the Company and the condition of the general economy and the industry as a whole. No one customer accounted for 10% or more of accounts receivable at either March 31, 2009 or June 30, 2009. No one customer accounted for 10% or more of revenue during either of the three month periods ended June 30, 2008 or 2009.

Property and Equipment: Additions to property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years.

The Company capitalizes software development costs intended for internal use. The Company accounts for internally developed software costs in accordance with Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. These costs are included in computer software in property and equipment and are amortized over a period of five years.

Long-Lived Assets: The carrying amount of all long-lived assets is evaluated periodically to determine if adjustment to the depreciation and amortization period or to the unamortized balance is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets and the projected, undiscounted cash flows of the operations in which the long-lived assets are deployed.

Goodwill: The Company accounts for its business combinations in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, which requires that the purchase method of accounting be applied to all business combinations and addresses the criteria for initial recognition of intangible assets and goodwill. In accordance with SFAS No. 142, Goodwill and Other Intangibles , goodwill and other intangible assets with indefinite lives are not amortized but are tested for impairment annually, or more frequently if circumstances indicate the possibility of impairment. If the carrying value of goodwill or an intangible asset exceeds its fair value, an impairment loss shall be recognized. The Company s goodwill impairment test is conducted company-wide and the fair value is compared to its carrying value. The measurement of fair value is based on an evaluation of market capitalization and is further tested using a multiple of earnings approach. For all periods presented, the Company s tests indicated that no impairment existed and, accordingly, no loss has been recognized.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note A Basis of Presentation and Summary of Significant Accounting Policies(continued)

Income Taxes: The Company provides for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities as measured by the enacted tax rates which are expected to be in effect when these differences reverse. Income tax expense is the tax payable for the period and the change during the period in net deferred tax assets and liabilities. The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48) on April 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material change in the liability for unrecognized income tax benefits during the June 2009 quarter. The balance of the unrecognized tax benefits as of March 31, 2009 and June 30, 2009 was $3,681,000. There were no additions or reductions in the unrecognized tax benefit during the quarter ended June 30, 2009.

Earnings Per Share: Earnings per common share-basic is based on the weighted average number of common shares outstanding during the period. Earnings per common shares-diluted is based on the weighted average number of common shares and common share equivalents outstanding during the period. In calculating earnings per share, earnings are the same for the basic and diluted calculations. Weighted average shares outstanding decreased in the June 2009 quarter compared to the same quarter of the prior year for diluted earnings per share due to shares repurchased.

Cash: Cash at June 30, 2009 includes $1.7 million of customer deposits held in bank checking accounts.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note B Stock Based Compensation and Stock Options

Under the Company s Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) (the Plan) as in effect at June 30, 2009, options for up to 9,682,500 shares of the Company s common stock may be granted over the life of the Plan to employees, non-employee directors and consultants at exercise prices not less than the fair market value of the stock at the date of grant. Options granted under the Plan are non-statutory stock options and generally vest 25% one year from date of grant with the remaining 75% vesting ratably each month for the next 36 months thereafter. The options granted to employees generally expire at the end of five years from the date of grant and the options granted to non-employee members of the board of directors generally expire at the end of ten years from the date of grant.

In May 2006, the Company s Board of Directors granted performance-based stock options for 149,000 shares of common stock at fair market value at the date of grant, which will only vest if the Company attains certain earnings per share targets, as established by the Company s Board of Directors, for calendar years 2008, 2009, and 2010. Net of forfeitures, options for 136,050 shares remain outstanding under these performance-based stock options as of June 30, 2009. These options were granted at $15.76 per share, and have a valuation of $6.75 per share. Currently, management has determined that it is not probable that the Company will attain the earnings per share targets under these options and, accordingly, the Company has recognized no stock compensation expense for these options.

In February 2009, the Company s Board of Directors granted performance-based stock options for 42,000 shares of common stock at fair market value at the date of grant, which will only vest if the Company attains certain revenue targets for TPA revenues and out-of-network bill review revenues, as established by the Company s Board of Directors, for calendar years 2009, 2010, and 2011. The targets for the various options varied by the regions managed these optionees and each region has different targets. Net of forfeitures, options for 38,000 shares remain outstanding under these performance-based stock options as of June 30, 2009. These options were granted at $25.10 per share, and have a valuation of $9.81 per share. Currently, management has determined that it is probable that the optionees with 6,000 shares underlying these options will attain these targets and, accordingly, the Company has recognized $10,000 during the June 2009 quarter and cumulatively since the date of the option grant. Management has determined that it is not probable that the targets for the remaining optionees will be attained and, accordingly, the Company has recognized no stock compensation expense for these options.

In February 2009, the Company s Board of Directors granted performance-based stock options for 100,000 share of common stock at fair market value at the date of grant, which will only vest if the Company attains certain earnings per share targets, as established by the Company s Board of Directors, for calendar years 2009, 2010, and 2011. Net of forfeitures, options for 95,000 shares remain outstanding under these performance-based stock options as of June 30, 2009. These options were granted at $19.79 per share, and have a valuation of $8.21 per share. Currently, management has determined that it is probable that the Company will attain these targets and, accordingly, the Company has recognized stock compensation expense of $130,000 during the June 2009 quarter and cumulatively since the date of the option grant for these options.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note B Stock Based Compensation and Stock Options (continued)

Additionally, in February 2009, the Company s Board of Directors granted performance-based stock options for 10,000 shares of common stock at fair market value at the date of grant to an employee, which will only vest if the Company attains certain revenue targets for TPA revenues and out-of-network bill review revenues, as established by the Company s Board of Directors, for calendar years 2009, 2010, and 2011. These options were granted at $19.79 per share, and have a valuation of $8.21 per share. Currently, management has determined that it is not probable that the Company will attain these targets and, accordingly, the Company has recognized no stock compensation expense for this stock option grant.

The table below shows the amounts recognized in the financial statements for the three months ended June 30, 2008 and 2009, respectively.

	Three Months Ended	
	June 30, 2008	June 30, 2009
Cost of revenues	$ 117,000	$ 122,000
General and administrative	267,000	377,000
Total cost of stock-based compensation included in income, before income tax	384,000	499,000
Amount of income tax benefit recognized	(150,000)	(200,000)
Amount charged against income	$ 234,000	$ 299,000
Effect on diluted income per share	$ (0.02)	$ (0.02)

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note B Stock Based Compensation and Stock Options (continued)

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model with the assumptions included in the table below. The Company uses historical data among other factors to estimate the expected volatility, the expected option life, and the expected forfeiture rate. The risk-free rate is based on the interest rate paid on a U.S. Treasury issue with a term similar to the estimated life of the option. Based upon the historical experience of options cancellations, the Company has estimated an annualized forfeiture rate of 10.44% and 10.71% for the three months ended June 30, 2008 and 2009, respectively. Forfeiture rates will be adjusted over the requisite service period when actual forfeitures differ, or are expected to differ, from the estimate. The following assumptions were used to estimate the fair value of options granted during the three months ended June 30, 2008 and 2009 using the Black-Scholes option-pricing model:

	Three Months Ended June 30,	
	2008	2009
Risk-free interest rate	3.14%	1.97%
Expected volatility	40%	46%
Expected dividend yield	0.00%	0.00%
Expected forfeiture rate	10.44%	10.71%
Expected weighted average life of option in years	4.7 years	4.8 years

All options granted in the three months ended June 30, 2008 and 2009 were granted at fair market value and are non-statutory stock options.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note B Stock Based Compensation and Stock Options (continued)

Summarized information for all stock options for the three months ended June 30, 2008 and 2009 follows:

	Three Months Ended June 30, 2008		Three Months Ended June 30, 2009	
	Shares	Average Price	Shares	Average Price
Options outstanding, beginning	1,030,858	$ 19.24	1,115,171	$ 20.31
Options granted	29,800	32.44	10,800	21.76
Options exercised	(65,569)	18.32	(34,462)	14.18
Options cancelled	(1,909)	18.45	(25,667)	20.69
Options outstanding, ending	993,180	$ 19.70	1,065,842	$ 20.51

The following table summarizes the status of stock options outstanding and exercisable at June 30, 2009:

Range of Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Life	Outstanding Options Weighted Average Exercise Price	Exercisable Options Number of Exercisable Options	Options Weighted Average Exercise Price
$9.89 to $14.76	163,779	1.23	$ 13.02	142,801	$ 12.97
$14.77 to $17.14	312,966	2.26	$ 15.91	149,762	$ 16.08
$17.15 to $25.10	297,375	4.21	$ 21.16	79,309	$ 20.71
$25.11 to $47.70	291,722	3.64	$ 29.01	111,850	$ 29.29
Total	1,065,842	3.03	$ 20.51	483,722	$ 18.98

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note B Stock Based Compensation and Stock Options (continued)

A summary of the status for all outstanding options at June 30, 2009, and changes during the quarter then ended, is presented in the table below:

	Number of Options	Weighted Average Exercise Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value as of June 30, 2009
Options outstanding at March 31, 2009	1,115,171	$ 20.31		
Granted	10,800	21.76		
Exercised	(34,462)	14.18		
Cancelled forfeited	(24,481)	20.63		
Cancelled expired	(1,186)	21.91		
Ending outstanding	1,065,842	$ 20.51	3.03	$ 4,403,645
Ending vested and expected to vest	949,709	$ 20.42	2.93	$ 4,062,394
Ending exercisable at June 30, 2009	483,722	$ 18.98	2.35	$ 2,603,855

The weighted-average grant-date fair value of options granted during the three months ended June 30, 2008 and 2009, was $12.49 and $9.09, respectively.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note C Treasury Stock

The Company s Board of Directors approved the commencement of a share repurchase program in the fall of 1996 and has approved the repurchase of up to 13,150,000 over the life of the share repurchase program. Since the commencement of the share repurchase program, the Company has spent $186 million to repurchase 12,712,419 shares of its common stock, equal to 50% of the outstanding common stock had there been no repurchases. The average price of these repurchases was $14.66 per share. These purchases have been funded primarily from the net earnings of the Company, along with the proceeds from the exercise of common stock options. During the three months ended June 30, 2009, the Company repurchased 29,676 shares for $0.6 million. The Company had 12,920,776 shares of common stock outstanding as of June 30, 2009, after reduction for the 12,712,419 shares in treasury.

Note D Weighted Average Shares and Net Income Per Share

Weighted average basic common and common equivalent shares decreased from 13,816,000 for the quarter ended June 30, 2008 to 12,925,000 for the quarter ended June 30, 2009. Weighted average diluted common and common equivalent shares decreased from 14,045,000 for the quarter ended June 30, 2008 to 13,056,000 for the quarter ended June 30, 2009. The net decrease in both of these weighted share calculations is due to the repurchase of common stock as noted above, partially offset by an increase in shares outstanding due to the exercise of stock options under the Company s employee stock option plan.

Net income per common and common equivalent shares was computed by dividing net income by the weighted average number of common and common stock equivalents outstanding during the quarter. The calculations of the basic and diluted weighted shares for the three months ended June 30, 2008 and 2009, are as follows:

	Three Months Ended June 30,	
	2008	2009
Net Income	$ 5,567,000	$ 6,404,000
Basic:		
Weighted average common shares outstanding	13,816,000	12,925,000
Net Income per share	$ 0.40	$ 0.50
Diluted:		
Weighted average common shares outstanding	13,816,000	12,925,000
Treasury stock impact of stock options	229,000	131,000
Total common and common equivalent shares	14,045,000	13,056,000
Net Income per share	$ 0.40	$ 0.49

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note E Shareholder Rights Plan

During fiscal 1997, the Company s Board of Directors approved the adoption of a Shareholder Rights Plan. The Shareholder Rights Plan provides for a dividend distribution to CorVel stockholders of one preferred stock purchase right for each outstanding share of CorVel s common stock under certain circumstances. In April 2002, the Company s Board of Directors approved an amendment to the Shareholder Rights Plan to extend the expiration date of the rights to February 10, 2012, set the exercise price of each right at $118 and enable Fidelity Management & Research Company and its affiliates to purchase up to 18% of the shares of common stock of the Company without triggering the stockholder rights with the limitations under the Shareholder Rights Plan remaining in effect for all other stockholders of the Company. In November 2008, the Company s Board of Directors approved an amendment to the Shareholder Rights Plan to extend the expiration date of the rights to February 10, 2022, remove the ability of Fidelity Management & Research Company and its affiliates to purchase up to 18% of the shares of common stock of the Company without triggering the stockholder rights, substitute Computershare Trust Company, N.A. as the rights agent and effect certain technical changes to the Shareholder Rights Plan.

The rights are designed to assure that all shareholders receive fair and equal treatment in the event of any proposed takeover of the Company and to encourage a potential acquirer to negotiate with the Board of Directors prior to attempting a takeover. The rights have an exercise price of $118 per right, subject to subsequent adjustment. The rights trade with the Company s common stock and will not be exercisable until the occurrence of certain takeover-related events.

Generally, the Shareholder Rights Plan provides that if a person or group acquires 15% or more of the Company s common stock without the approval of the Board, subject to certain exceptions, the holders of the rights, other than the acquiring person or group, would, under certain circumstances, have the right to purchase additional shares of the Company s common stock having a market value equal to two times the then-current exercise price of the right.

In addition, if the Company is thereafter merged into another entity, or if 50% or more of the Company s consolidated assets or earning power are sold, then the right will entitle its holder to buy common shares of the acquiring entity having a market value equal to two times the then-current exercise price of the right. The Company s Board of Directors may exchange or redeem the rights under certain conditions.

CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (Unaudited)

Note F Other Intangible Assets

Other intangible assets consist of the following at June 30, 2009:

Item	Life	Cost	Three Months Ended June 30, 2009 Amortization Expense	Accumulated Amortization at June 30, 2009	Cost, Net of Accumulated Amortization at June 30, 2009
Covenants Not to Compete	5 Years	$ 950,000	$ 42,000	$ 459,000	$ 491,000
Customer Relationships	18-20 Years	7,571,000	102,000	893,000	6,678,000
TPA Licenses	15 Years	204,000	4,000	26,000	178,000
Total		$8,725,000	$ 148,000	$1,378,000	$ 7,347,000

Note G Line of Credit

In May 2009, the Company entered into a credit agreement with a financial institution to provide a revolving credit facility with borrowing capacity of up to $10 million Borrowings under this agreement bear interest, at the Company s option, at a fixed LIBOR-based rate plus 1.50% or at a fluctuating rate determined by the financial institution to be 1.50% above the daily one-month LIBOR rate. The loan covenants require the Company to maintain the current assets to liabilities ratio of at least 1.25:1, debt to tangible net worth not greater than 1:1 and have positive net income. The Company is not authorized to use this line for stock repurchases. There are no outstanding revolving loans as of the date hereof, but letters of credit in the aggregate amount of $6.3 million have been issued under a letter of credit sub-limit that does not reduce the amount of borrowings available under the revolving credit facility. The credit agreement expires in May 2010.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report may include certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including (without limitation) statements with respect to anticipated future operating and financial performance, growth and acquisition opportunities and other similar forecasts and statements of expectation. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and should , and variations of these words and similar expressions, are intended identify these forward-looking statements. Forward-looking statements made by the Company and its management are based on estimates, projections, beliefs and assumptions of management at the time of such statements and are not guarantees of future performance.

The Company disclaims any obligations to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions including decreasing number of national claims due to decreasing number of injured workers; cost of capital and capital requirements; possible litigation and legal liability in the course of operations; competition from other managed care companies; the ability to expand certain areas of the Company s business; shifts in customer demands; the ability of the Company to produce market-competitive software; changes in operating expenses including employee wages, benefits and medical inflation; governmental and public policy changes; dependence on key personnel; and the continued availability of financing in the amounts and at the terms necessary to support the Company s future business.

Overview

CorVel Corporation is an independent nationwide provider of medical cost containment and managed care services designed to address the escalating medical costs of workers compensation and auto policies. The Company s services are provided to insurance companies, third-party administrators (TPA s), and self-administered employers to assist them in managing the medical costs and monitoring the quality of care associated with healthcare claims.

Network Solutions Services

The Company s network solutions services are designed to reduce the price paid by its customers for medical services rendered in workers compensation cases, auto policies and, to a lesser extent, group health policies. The network solutions offered by the Company include automated medical fee auditing, preferred provider services, retrospective utilization review, independent medical examinations, MRI examinations, and inpatient bill review.

Patient Management Services

In addition to its network solutions services, the Company offers a range of patient management services, which involve working on a one-on-one basis with injured employees and their various healthcare professionals, employers and insurance company adjusters. The services are designed to monitor the medical necessity and appropriateness of healthcare services provided to workers compensation and other healthcare claimants and to expedite return to work. The Company offers these services on a stand-alone basis, or as an integrated component of its medical cost containment services. The Company expanded its patient management services to include the processing of claims for self-insured payors to property and casualty insurance with the January 2007 acquisition of the assets of Hazelrigg Risk Management Services, the June 2007 acquisition of the outstanding capital stock of The Schaffer Companies, Ltd. and the February 2009 acquisition of the outstanding capital stock of Eagle Claim Services, Inc

Organizational Structure

The Company s management is structured geographically with regional vice-presidents who report to the President of the Company. Each of these regional vice-presidents is responsible for all services provided by the Company in his or her particular region and for the operating results of the Company in multiple states. These regional vice presidents have area and district managers who are also responsible for all services provided by the Company in their given area and district.

Business Enterprise Segments

We operate in one reportable operating segment, managed care. The Company s services are delivered to its customers through its local offices in each region and financial information for the Company s operations follows this service delivery model. All regions provide the Company s patient management and network solutions services. Statement of Financial Accounting Standards, or SFAS, No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the way that public business enterprises report information about operating segments in annual and interim consolidated financial statements. The Company s internal financial reporting is segmented geographically, as discussed above, and managed on a geographic rather than service line basis, with virtually all of the Company s operating revenue generated within the United States.

Under SFAS 131, two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if aggregation is consistent with the objective and basic principles of SFAS 131, if the segments have similar economic characteristics, and if the segments are similar in each of the following areas: 1) the nature of products and services, 2) the nature of the production processes; 3) the type or class of customer for their products and services; and 4) the methods used to distribute their products or provide their services. We believe each of the Company s regions meet these criteria as they provide similar services to similar customers using similar methods of productions and similar methods to distribute their services.

Summary of Quarterly Results

The Company generated revenues of $81.3 million for the quarter ended June 30, 2009, an increase of $3.1 million or 3.8%, compared to revenues of $78.2 million for the quarter ended June 30, 2008. The increase in total revenues was primarily due to an increase in network solutions. Bill volume increased on large dollar out-of-network bills, which generate higher savings for the Company s customers and higher revenues for the Company. Patient management revenue also increased, by a nominal amount.

The continued decrease in the number of jobs in the manufacturing sector and its corresponding effect on the number of workplace injuries that have become longer-term disability cases, the considerable price competition given the flat-to-declining overall workers compensation market, the increase in competition from local and regional companies, changes and the potential changes in state workers compensation and auto managed care laws, which can reduce demand for the Company s services, have created an environment where revenue and margin growth is more difficult to attain and where revenue growth is uncertain. Additionally, the Company s technology and preferred provider network competes against other companies, some of which have greater resources available. Also, some customers may handle their managed care services in-house and may reduce the amount of services which are outsourced to managed care companies such as CorVel. These factors are expected to continue to limit our revenue growth in the near future.

The Company s cost of revenues increased by $1.9 million, from $58.3 million in the June 2008 quarter to $60.2 million in the June 2009 quarter, an increase of 3.3%. This increase was primarily due to labor-intensive products increased revenue and the cost associated with those revenues. Cost of services related to directed care services increased by $1.0 million, while pharmacy services increased by $0.4 million, due to an increase in revenue from these services and $0.5 million from several other items.

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The Company s general and administrative expenses decreased by $0.3 million, from $10.8 million in the June 2008 quarter to $10.5 million in the June 2009 quarter, a decrease of 3.3%. This decrease is primarily due to a decrease in the Company s systems and data interface costs that were offset by an increase in the Company s marketing, product management and administrative costs. Systems cost decreased from $6.7 million to $5.9 million as the Company reduced system costs and IT infrastructure costs through a reduction in headcount and consulting costs. Marketing, product management and administrative costs increased by $0.7 million due to staffing requirements.

The Company s income tax expense increased by $0.7 million, from $3.6 million, or 20.5%, in the June 2008 quarter to $4.3 million in the June 2009 quarter. The increase in income before income taxes was primarily due to the aforementioned increase in operating income which resulted in an increase in income before income taxes. The effective income tax rate was 39% in the June 2008 quarter and 40.1% in the June 2009 quarter. This increase was due to an increase in state tax rates.

Weighted diluted shares decreased from 14.0 million shares in the June 2008 quarter to 13.1 million shares in the June 2009 quarter, a decrease of 989,000 shares, or 7.0%. This decrease was primarily due to the repurchase of 925,000 shares of common stock during the September 2008, December 2008, March 2009 and June 2009 quarters. The decrease was partially offset by the exercise of stock options during each of the corresponding quarters.

Diluted earnings per share increased from $0.40 in the June 2008 quarter to $0.49 in the June 2009 quarter, an increase of $0.09 per share, or 22.5%. The increase in diluted earnings per share was primarily due to the increase in operating income combined with a decrease in shares outstanding.

Results of Operations

The Company derives its revenues from providing patient management and network solutions services to payors of workers compensation benefits, auto insurance claims and health insurance benefits. Patient management services include utilization review, medical case management, and vocational rehabilitation. Network solutions revenues include fee schedule auditing, hospital bill auditing, independent medical examinations, diagnostic imaging review services and preferred provider referral services. The percentages of total revenues attributable to patient management and network solutions services for the quarters ended June 30, 2008 and June 30, 2009 are as follows:

	June 30, 2008	June 30, 2009
Patient management services	42.7%	42.1%
Network solutions services	57.3%	57.9%

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The following table sets forth, for the periods indicated, the dollars and the percentage of revenues represented by certain items reflected in the Company s consolidated income statements for the quarters ended June 30, 2008 and June 30, 2009. The Company s past operating results are not necessarily indicative of future operating results.

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2009	Change	Percentage Change
Revenue	$78,201,000	$ 81,312,000	$3,111,000	4.0%
Cost of revenues	58,268,000	60,170,000	1,902,000	3.3%
Gross profit	19,933,000	21,142,000	1,209,000	6.1%
Gross profit as percentage of revenue	25.5%	26.0%		
General and administrative	10,807,000	10,450,000	(357,000)	(3.3%)
General and administrative as percentage of revenue	13.8%	12.9%		
Income before income tax provision	9,126,000	10,692,000	1,566,000	17.2%
Income before income tax provision as percentage of revenue	11.7%	13.1%		
Income tax provision	3,559,000	4,288,000	729,000	20.5%
Net income	$ 5,567,000	$ 6,404,000	$ 837,000	15.0%
Weighted Shares				
Basic	13,816,000	12,925,000	(891,000)	(6.4%)
Diluted	14,045,000	13,056,000	(989,000)	(7.0%)
Earnings Per Share				
Basic	$ 0.40	$ 0.50	$ 0.10	25.0%
Diluted	$ 0.40	$ 0.49	$ 0.09	22.5%

Revenues

Change in revenue from the quarter ended June 2008 to the quarter ended June 2009

Revenues increased from $78.2 million for the three months ended June 30, 2008 to $81.3 million for the three months ended June 30, 2009, an increase of $3.1 million or 4.0%. The Company s patient management revenues increased $0.9 million or 2.7% from $33.3 million in the June 2008 quarter to $34.2 million in the June 2009 quarter. This increase was primarily due to growth in the Company s claims administration business, offset by slowing in the Company s case management services. The Company s network solutions revenues increased from $44.8 million in the June 2008 quarter to $47.1 million in the June 2009 quarter, an increase of $2.3 million or 5.1%. This increase was primarily due an increase in the Company s bill volume on large dollar out of network bills, which generate higher savings and therefore higher revenues for the Company.

The decrease in the nation s manufacturing employment levels, which has helped lead to a decline in national workers compensation claims, considerable price competition in a flat-to-declining overall market, an increase in competition from both larger and smaller competitors, changes and the potential changes in state workers compensation and auto managed care laws which can reduce demand for the Company s services, have created an environment where revenue and margin growth is more difficult to attain and where revenue growth is uncertain. Additionally, the Company s technology and preferred provider network competes against other companies, some of which have greater resources available. Also, some customers may handle their managed care services in-house and may reduce the amount of services which are outsourced to managed care companies such as CorVel.

The Company believes that referral volume in patient management services and bill review volume in network solutions services will either decrease or reflect nominal growth until there is growth in the number of work related injuries and workers compensation related claims.

Cost of Revenues

The Company s cost of revenues consist of direct expenses, costs directly attributable to the generation of revenue, and field indirect costs which are incurred in the field offices of the Company. Direct costs are primarily case manager salaries, bill review analysts, related payroll taxes and fringe benefits, and costs for independent medical examination (IME) and MRI providers. Most of the Company s revenues are generated in offices which provide both patient management services and network solutions services. The largest of the field indirect costs are manager salaries and bonus, account executive base pay and commissions, administrative and clerical support, field systems personnel, PPO network developers, related payroll taxes and fringe benefits, office rent, and telephone expense. Approximately 37% of the costs incurred in the field are costs which support both the patient management services and network solutions operations of the Company s field operations, such as district managers, account executives, rent, and telephone.

Change in cost of revenue from the quarter ended June 2008 to the quarter ended June 2009

The Company s costs of revenues increased from $58.3 million in the quarter ended June 30, 2008 to $60.2 million in the quarter ended June 30, 2009, an increase of $1.9 million or 3.3%. This increase was primarily due to labor intensive products increased revenue and the cost associated with those revenues. Cost of services related to directed care services increased by $1.0 million, while pharmacy services increased by $0.4 million, due to an increase in revenue from these services and $0.5 million from several other items.

General and Administrative Expenses

Change in cost of general and administrative expense from the quarter ended June 2008 to the quarter ended June 2009

For the quarter ended June 30, 2009, general and administrative expenses consisted of approximately 56% of corporate systems costs which include the corporate systems support, implementation and training, amortization of software development costs, depreciation of the hardware costs in the Company s national systems, the Company s national wide area network and other systems related costs. The remaining 44% of the general and administrative expenses consisted of national marketing, national sales support, corporate legal, corporate insurance, human resources, accounting, product management, new business development and other general corporate matters. The largest portion of the non-systems portion of general and administrative expenses during the June 2009 quarter pertained to accounting, financial reporting and corporate governance.

General and administrative expense decreased from $10.8 million in the quarter ended June 30, 2008 to $10.5 million in the quarter ended June 30, 2009, a decrease of $0.3 million, or 3.3%. This decrease is primarily due to a decrease in the Company s systems and data interface costs. Systems cost decreased from $6.7 million to $5.9 million primarily through a reduction in headcount and the reduction in the use of consultants.

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Income Tax Provision

The Company s income tax expense increased by $0.7 million, or 20.5%, from $3.6 million for the three months ended June 30, 2008 to $4.3 million for the three months ended June 30, 2009 due to the increase in income before income taxes from $9.1 million to $10.7 million. The income tax expense as a percentage of income before income taxes was 39.0% for the three months ended June 30, 2008 and 40.1% for the three months ended June 30, 2009. This increase was due to an increase in state tax rates. The income tax provision rates were based upon management s review of the Company s estimated annual income tax rate, including state taxes. This effective tax rate differed from the statutory federal tax rate of 35.0% primarily due to state income taxes and certain non-deductible expenses.

Liquidity and Capital Resources

The Company has historically funded its operations and capital expenditures primarily from cash flow from operations, and to a lesser extent, stock option exercises. Net working capital increased $7.9 million, or 28%, from $28.1 million as of March 31, 2009 to $36.0 million as of June 30, 2009, primarily due to an increase in cash from $15 million as of March 31, 2009 to $20 million as of June 30, 2009.

The Company believes that cash from operations, available funds under its line of credit, and funds from exercise of stock options granted to employees are adequate to fund existing obligations, repurchase shares of the Company s common stock under its current share repurchase program, introduce new services, and continue to develop healthcare related businesses for at least the next twelve months. The Company regularly evaluates cash requirements for current operations and commitments, and for capital acquisitions and other strategic transactions. The Company may elect to raise additional funds for these purposes, through debt or equity, the sale of investment securities or otherwise, as appropriate. Additional equity or debt financing may not be available on terms favorable to us or at all.

As of June 30, 2009, excluding $1.7 million of customer deposits held in bank checking accounts, the Company had $18 million in cash and cash equivalents, invested primarily in short-term, interest-bearing, highly liquid investment-grade securities with maturities of 90 days or less in a federally regulated bank.

In May 2009, the Company entered its credit agreement with a financial institution to provide a revolving credit facility with borrowing capacity of up to $10 million. Borrowings under this agreement bear interest, at the Company s option, at a fixed LIBOR-based rate plus 1.50% or at a fluctuating rate determined by the financial institution to be 1.50% above the daily one-month LIBOR rate. The loan covenants require the Company to maintain the current assets to liabilities ratio of at least 1.25:1, debt to tangible net worth not greater than 1:1 and have positive net income. The Company is not authorized to use this line for stock repurchases. There are no outstanding revolving loans as of the date hereof, but letters of credit in the aggregate amount of $6.3 million have been issued under a letter of credit sub-limit that does not reduce the amount of borrowings available under the revolving credit facility. The credit agreement expires in May 2010.

The Company has historically required substantial capital to fund the growth of its operations, particularly working capital to fund growth in accounts receivable and capital expenditures. The Company believes, however, that the cash balance at June 30, 2009, along with anticipated internally generated funds and the credit facility, will be sufficient to meet the Company s expected cash requirements for at least the next twelve months.

Operating Cash Flows

Three months ended June 30, 2008 compared to three months ended June 30, 2009

Net cash provided by operating activities was $8.4 million in the three months ended June 30, 2008 compared to $7.8 million, a decrease of $0.6 million or 7.1%, in the three months ended June 30, 2009. The decrease in the cash flow from operating activities was primarily due to an increase in accounts and taxes payable and an increase in accounts receivable for the three months ended June 30, 2009 compared to the three months ended June 30, 2008.

Investing Activities

Three months ended June 30, 2008 compared to three months ended June 30, 2009

Net cash flow used in investing activities decreased from $2.6 million in the three months ended June 30, 2008 to $1.9 million in the three months ended June 30, 2009 a decrease of $0.7 million or 26.9%. The decrease in net cash used in investing activities is primarily due to a reduction in the amount spent on IT hardware during three months ended June 30, 2009.

Financing Activities

Three months ended June 30, 2008 compared to three months ended June 30, 2009

Net cash flow used in financing activities decreased from $1.9 million for the three months ended June 30, 2008 to $0.4 million for the three months ended June 30, 2009, a decrease of $1.5 million or 78.9%. The decrease in cash flow used in financing activities was primarily due to a decrease in purchases under the Company s share repurchase program. The Company has historically used cash provided by operating activities and from the exercise of stock options to repurchase stock. The Company expects it may use some of the $20.2 million of cash on its balance sheet at June 30, 2009 to repurchase additional shares of stock.

The following table summarizes the Company s contractual obligations outstanding as of June 30, 2009.

		Payments Due by Period			
	Total	Within One Year	Between Two and Three Years	Between Four and Five Years	More than Five Years
Operating leases	$51,838,852	$14,459,005	$20,395,260	$11,231,074	$5,753,513
Total	$51,838,852	$14,459,005	$20,395,260	$11,231,074	$5,753,513

Inflation. The Company experiences pricing pressures in the form of competitive prices. The Company is also impacted by rising costs for certain inflation-sensitive operating expenses such as labor and employee benefits, and facility leases. However, the Company generally does not believe these impacts are material to its revenues or net income.

Litigation

In February 2005, Kathleen Roche, D.C., as plaintiff, filed a putative class action in Circuit Court for the 20th Judicial District, St. Clair County, Illinois, against the Company. The case seeks unspecified damages based on the Company s alleged failure to direct patients to medical providers who are members of the CorVel CorCare PPO network and also alleges that the Company used biased and arbitrary computer software to review medical providers bills. In December 2007, the trial court certified a class in this case of all Illinois health care providers with CorVel PPO agreements, excluding hospitals. In January 2008, CorVel filed with the Illinois Appellate Court a petition for interlocutory appeal of the trial court s class certification order which was denied in April 2008. In

May 2008, the Company appealed the appellate court s denial of its petition for interlocutory appeal which appeal was also denied by the Illinois Supreme Court in September 2008. The Company intends to pursue all available legal remedies including vigorously defending this case. The Company is not able to estimate the amount of possible loss, if any, at this time.

The Company is involved in other litigation arising in the normal course of business. Management believes that resolution of these matters will not result in any payment that, in the aggregate, would be material to the financial position or results of the operations of the Company.

Off-Balance Sheet Arrangements

The Company is not a party to off-balance sheet arrangements as defined by the rules of the Securities and Exchange Commission. However, from time to time the Company enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. The contracts primarily relate to: (i) certain contracts to perform services, under which the Company may provide customary indemnification to the purchases of such services; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company s use of the applicable premises; and (iii) certain agreements with the Company s officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their relationship with the Company.

The terms of such obligations vary by contract and in most instances a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, no liabilities have been recorded for these obligations on the Company s balance sheets for any of the periods presented.

Critical Accounting Policies

The rules of the Securities and Exchange Commission define critical accounting policies as those that require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The following is not intended to be a comprehensive list of our accounting policies, but supplements the accounting policies described in Note A to the Consolidated Financial Statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States of America, with no need for management s judgment in their application. There are also areas in which management s judgment in selecting an available alternative would not produce a materially different result.

We have identified the following accounting policies as critical to us: 1) revenue recognition, 2) cost of revenues, 3) allowance for uncollectible accounts, 4) goodwill and long-lived assets, 5) accrual for self-insured costs, 6) accounting for income taxes, and 7) share-based compensation.

Revenue Recognition: The Company s revenues are recognized primarily as services are rendered based on time and expenses incurred. A certain portion of the Company s revenues are derived from fee schedule auditing which is based on the number of provider charges audited and, to a lesser extent, on a percentage of savings achieved for the Company s customers. We generally recognize revenue when there is persuasive evidence of an arrangement, the services have been provided to the customer, the sales price is fixed or determinable, and collectability is reasonably assured. We reduce revenue for estimated contractual allowances and record any amounts invoiced to the customer in advance of service performance as deferred revenue.

Cost of revenues: Cost of services consists primarily of the compensation and fringe benefits of field personnel, including managers, medical bill analysts, field case managers, telephonic case managers, systems support, administrative support and account managers and account executives and related facility costs including rent, telephone and office supplies. Historically, the costs associated with these additional personnel and facilities have been the most significant factor driving increases in the Company s cost of services. Locally managed and

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incurred IT costs are charged to cost of revenues whereas the costs incurred and managed at the corporate offices are charged to general and administrative expense.

Allowance for Uncollectible Accounts: The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company s previous loss history, the customers current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible.

We must make significant management judgments and estimates in determining contractual and bad debt allowances in any accounting period. One significant uncertainty inherent in our analysis is whether our past experience will be indicative of future periods. Although we consider future projections when estimating contractual and bad debt allowances, we ultimately make our decisions based on the best information available to us at that time. Adverse changes in general economic conditions or trends in reimbursement amounts for our services could affect our contractual and bad debt allowance estimates, collection of accounts receivable, cash flows, and results of operations.

There has been no material change in the net reserve balance during the past three fiscal years. No one customer accounted for 10% or more of accounts receivable at March 31, 2009, and June 30, 2009.

Goodwill and Long-Lived Assets: Goodwill arising from business combinations represents the excess of the purchase price over the estimated fair value of the net assets of the acquired business. Pursuant to SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is tested annually for impairment or more frequently if circumstances indicate the potential for impairment. Also, management tests for impairment of its intangible assets and long-lived assets on an ongoing basis and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company s impairment is conducted at a company-wide level. The measurement of fair value is based on an evaluation of market capitalization and is further tested using a multiple of earnings approach. In projecting the Company s cash flows, management considers industry growth rates and trends and cost structure changes. Based on the Company s tests and reviews, no impairment of its goodwill, intangible assets or other long-lived assets existed at March 31, 2009 or at June 30, 2009. However, future events or changes in current circumstances could affect the recoverability of the carrying value of goodwill and long-lived assets. Should an asset be deemed impaired, an impairment loss would be recognized to the extent the carrying value of the asset exceeded its estimated fair market value.

Accrual for Self-insurance Costs: The Company self-insures for the group medical costs and workers compensation costs of its employees. The Company purchases stop loss insurance for large claims. Management believes that the self-insurance reserves are appropriate; however, actual claims costs may differ from the original estimates requiring adjustments to the reserves. The Company determines its estimated self-insurance reserves based upon historical trends along with outstanding claims information provided by its claims paying agents.

Accounting for Income Taxes: The Company provides for income taxes in accordance with provisions specified in SFAS No. 109, Accounting for Income Taxes. Accordingly, deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities. These differences will result in taxable or deductible amounts in the future, based on tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. In making an assessment regarding the probability of realizing a benefit from these deductible differences, management considers the Company s current and past performance, the market environment in which the Company operates, tax planning strategies and the length of carry-forward periods for loss carry-forwards, if any. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that are more likely than not to be realized. Further, the Company provides for income tax issues not yet resolved with federal, state and local tax authorities.

Share-Based Compensation: Effective April 1, 2006, the Company adopted the provisions of SFAS No. 123R, Share-Based Payment, which establishes accounting for equity instruments exchanged for employee services. Under the provisions of SFAS No. 123R, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity grant).

For the quarter ended June 30, 2009, the Company recorded share-based compensation expense of $499,000. Share-based compensation expense recognized in fiscal 2009 is based on awards ultimately expected to vest; therefore, it has been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company s stock over the option s expected term, the risk-free interest rate over the option s term, and the Company s expected annual dividend yield. The Company s management believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company s stock options granted in fiscal 2009. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

The key input assumptions that were utilized in the valuation of the stock options granted during the quarter end June 30, 2009 are summarized in the table below.

Expected option term (1)	4.8 years
Expected volatility (2)	46%
Risk-free interest rate (3)	1.97%
Expected annual dividend yield	0%

(1) The expected option term is based on historical exercise and post-vesting termination patterns.

(2) Expected volatility represents a combination of historical stock price volatility and estimated future volatility.

(3) The risk-free interest rate is based on the implied yield on five year United States Treasury Bill on the date of grant.

Recently Issued Accounting Standards

Business Combinations

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). This statement replaces SFAS No. 141, Business Combinations (SFAS 141) and establishes the principles and requirements for how the acquirer in a business combination: (a) measures and recognizes the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquired entity, (b) measures and recognizes positive goodwill acquired or a gain from bargain purchase (negative goodwill), and (c) determines the disclosure information that is decision-useful to users of financial statements in evaluating the nature and financial effects of the business combination. Some of the significant changes to the existing accounting guidance on business combinations made by SFAS 141(R) include the following:

Most of the identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree shall be measured at their acquisition-date fair values in accordance with SFAS 157 fair value rather than SFAS 141 s requirement based on estimated fair values;

Acquisition-related costs incurred by the acquirer shall be expensed in the periods in which the costs are incurred rather than included in the cost of the acquired entity;

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Goodwill shall be measured as the excess of the consideration transferred, including the fair value of any contingent consideration, plus the fair value of any noncontrolling interest in the acquiree, over the fair values of the acquired identifiable net assets, rather than measured as the excess of the cost of the acquired entity over the estimated fair values of the acquired identifiable net assets;

Contractual pre-acquisition contingencies are to be recognized at their acquisition date fair values and noncontractual pre-acquisition contingencies are to be recognized at their acquisition date fair values only if it is more likely than not that the contingency gives rise to an asset or liability, whereas SFAS 141 generally permits the deferred recognition of pre-acquisition contingencies until the recognition criteria of SFAS No. 5, Accounting for Contingencies are met; and

Contingent consideration shall be recognized at the acquisition date rather than when the contingency is resolved and consideration is issued or becomes issuable.

SFAS 141(R) is effective for and shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with earlier adoption prohibited. Assets and liabilities that arose from business combinations with acquisition dates prior to the SFAS 141(R) effective date shall not be adjusted upon adoption of SFAS 141(R) with certain exceptions for acquired deferred tax assets and acquired income tax positions. The adoption of SFAS 141(R) on April 1, 2009, did not have a material effect on the Company s consolidated financial statements.

Subsequent Events

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, or SFAS 165. This Statement establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This Statement is effective for interim and annual periods ending after June 15, 2009. On April 1, 2009, the Company adopted SFAS 165, which did not have a material impact on the consolidated financial statements of the Company**.**

Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. FSP FAS 142-3 amends paragraph 11(d) of SFAS 142 to require an entity to use its own assumptions about renewal or extension of an arrangement, adjusted for the entity-specific factors in paragraph 11 of SFAS 142, even when there is likely to be substantial cost or material modifications. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. The provisions of FSP FAS 142-3 are to be applied prospectively to intangible assets acquired after April 1, 2009, for the Company, although the disclosure provisions are required for all intangible assets recognized as of or subsequent to April 1, 2009. The adoption of FSP FAS 142-3 on April 1, 2009, did not have a material effect on the Company s consolidated financial statements.

Fair Value Measurements

In 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 also responds to investors requests for expanded information about the extent to which entities measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other

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standards require or permit assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

Under SFAS 157, fair value refers to the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts business. SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy.

SFAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007 and for all interim periods within those fiscal years. The adoption of SFAS 157 did not have any impact on the amounts reported for financial assets and liabilities in the Company s 2009 consolidated financial statements.

In February 2008, the FASB issued Staff Position FAS 157-2, which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow the FASB and constituents additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of SFAS No. 157. Examples of items to which the deferral applies include the following:

- Nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods (nonrecurring fair value measurements).

- Reporting units measured at fair value in the first step of a goodwill impairment test (measured at fair value on a recurring basis, but not necessarily recognized or disclosed in the financial statements at fair value).

- Nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test (measured at fair value on a nonrecurring basis to determine the amount of goodwill impairment, but not necessarily recognized or disclosed in the financial statements at fair value).

- Nonfinancial long-lived assets (asset groups) measured at fair value for an impairment assessment (nonrecurring fair value measurements).

- Nonfinancial liabilities for exit or disposal activities initially measured at fair value (nonrecurring fair value measurements).

The Company elected to delay the adoption of SFAS No. 157 related to its nonfinancial assets and nonfinancial liabilities disclosed herein and was effective for CorVel on April 1, 2009 and had no impact on the Company s financial statements.

Fair Value Option

In 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently.

Different measurement attributes have been required under GAAP for different assets and liabilities that can create artificial volatility in earnings. SFAS 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value. SFAS 159 also establishes presentation and

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disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities.

SFAS 159 requires a company to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company s choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS 107, Disclosures about Fair Value of Financial Instruments.

SFAS 159 was effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. The Company elected not to report any financial assets or liabilities at fair value under SFAS 159 in its 2010 financial statements.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2009, the Company held no market risk sensitive instruments for trading purposes, and the Company did not employ any derivative financial instruments, other financial instruments, or derivative commodity instruments to hedge any market risk. The Company had no debt outstanding as of June 30, 2009 and therefore, had no market risk related to debt.

Item 4 Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of March 31, 2009, our disclosure controls and procedures were not effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission and (ii) accumulated and communicated to our management, including our principal executive and principal accounting officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined under the Rules 13a 15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of our financial reporting and preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with U.S. generally accepted accounting principles; providing reasonable assurance that our receipts and expenditures are made in accordance with authorizations of our management and directors; and providing reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements would be prevented or detected on a timely basis.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework* (COSO). Based on this assessment, management concluded that our internal control over financial reporting was not effective as of March 31, 2009 to provide reasonable assurance regarding the reliability of financial reporting and preparation of

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financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles due to the following material weakness.

Financial close and reporting. We did not maintain adequate controls to support: (i) timely and thorough reconciliation of significant accounts, (ii) effective utilization of disclosure checklists during the preparation of Company filings, (iii) use of Excel for enterprise consolidation and general ledger reporting in our Corporate office, (iv) review of data used to compute financial statement disclosures, and (v) regional accounting personnel not reporting directly to the corporate accounting function.

While we believe no single item listed above is a material weakness on its own, when the deficiencies are aggregated, we believe they represent a material weakness.

Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2009, there have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation Activities

During the fourth quarter of fiscal 2010, management made changes to the internal controls over financial close and reporting. These controls were implemented during the fourth quarter of fiscal 2010 and insufficient time has passed from the implementation of the controls through the completion of the annual audit for adequate evidence to be gathered that would enable us to conclude upon the effectiveness of these controls at the report date. In addition to continuing to use and rely upon the controls implemented in the fourth quarter of fiscal 2010, management will be implementing additional controls. What follows is a list of the deficiencies that we believe aggregated into a material weakness and the actions management has or is taking to remediate each deficiency.

(i) Timely and thorough reconciliation of significant accounts:

During the first and second quarters of fiscal 2010, management has implemented and will continue to implement additional controls over the reconciliation process. These controls have included and will include additional review by senior accounting staff and the Chief Financial Officer. Management is also instituting internal audit procedures designed to ensure timely and thorough reconciliation of all significant accounts.

(ii) Effective utilization of disclosure checklists during the preparation of Company filings:

During the fourth quarter of FY 2009, management implemented the use of disclosure checklists for all annual and quarterly SEC filings. While this control was operating in the fourth quarter and disclosure checklists were used in the preparation of the Form 10-K and first quarter 10-Q there was insufficient time from the implementation of the control to the audit report date to gather sufficient evidence to determine the effectiveness of the control at the audit report date.

(iii) Use of Excel for enterprise consolidation and general ledger reporting in our Corporate office:

During the fourth quarter of FY 2009, management implemented a process and associated control that requires reperformance of the Excel consolidation. A comparison is made between the Excel consolidation and the reperformed copy and discrepancies, if any, are researched and resolved. Additionally, the reperformance process includes a review and approval of each journal entry posted to the consolidation. While this control was operating in the fourth quarter, there was insufficient time from the implementation of the control to the audit report date to gather sufficient evidence to determine the effectiveness of the control at the audit report date.

(iv) Review of data used to compute financial statement disclosures:

Management is working to identify additional controls that will be implemented to ensure adequate review of data used to compute financial statement disclosures.

(v) Regional accounting personnel not reporting directly to the corporate accounting function:

Management is working to identify additional controls that will be implemented to ensure adequate review of data used to compute financial statement disclosures.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

In February 2005, Kathleen Roche, D.C., as plaintiff, filed a putative class action in Circuit Court for the 20th Judicial District, St. Clair County, Illinois, against the Company. The case seeks unspecified damages based on the Company s alleged failure to direct patients to medical providers who are members of the CorVel CorCare PPO network and also alleges that the Company used biased and arbitrary computer software to review medical providers bills. In December 2007, the trial court certified a class in this case of all Illinois health care providers with CorVel PPO agreements, excluding hospitals. In January 2008, CorVel filed with the Illinois Appellate Court a petition for interlocutory appeal of the trial court s class certification order which was denied in April 2008. In May 2008, the Company appealed the appellate court s denial of its petition for interlocutory appeal which appeal was also denied by the Illinois Supreme Court in September 2008. The Company is not able to estimate the amount of possible loss, if any, at this time.

The Company is involved in other litigation arising in the normal course of business. Management believes that resolution of these matters will not result in any payment that, in the aggregate, would be material to the financial position or results of the operations of the Company.

Item 1A. Risk Factors

A restated description of the risk factors associated with our business is set forth below. This description includes any and all changes (whether or not material) to, and supercedes, the description of the risk factors associated with our business previously disclosed in Part 1, Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

Past financial performance is not necessarily a reliable indicator of future performance, and investors in our common stock should not use historical performance to anticipate results or future period trends. Investing in our common stock involves a high degree of risk. Investors should consider carefully the following risk factors, as well as the other information in this report and our other filings with the Securities and Exchange Commission, including our consolidated financial statements and the related notes, before deciding whether to invest or maintain an investment in shares of our common stock. If any of the following risks actually occurs, our business, financial condition and results of operations would suffer. In this case, the trading price of our common stock would likely decline. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial also may impair our business operations.

Changes in government regulations could increase our costs of operations and/or reduce the demand for our services.

Many states, including a number of those in which we transact business, have licensing and other regulatory requirements applicable to our business. Approximately half of the states have enacted laws that require licensing of businesses which provide medical review services such as ours. Some of these laws apply to medical review of care covered by workers compensation. These laws typically establish minimum standards for qualifications of personnel, confidentiality, internal quality control and dispute resolution procedures. These regulatory programs may result in increased costs of operation for us, which may have an adverse impact upon our ability to compete with other available alternatives for healthcare cost control. In addition, new laws regulating the operation of managed care provider networks have been adopted by a number of states. These laws may apply to managed care provider networks having contracts with us or to provider networks which we may organize. To the extent we are governed by these regulations, we may be subject to additional licensing requirements, financial and operational oversight and procedural standards for beneficiaries and providers.

Regulation in the healthcare and workers compensation fields is constantly evolving. We are unable to predict what additional government initiatives, if any, affecting our business may be promulgated in the future. Our business may be adversely affected by failure to comply with existing laws and regulations, failure to obtain necessary licenses and government approvals or failure to adapt to new or modified regulatory requirements. Proposals for healthcare legislative reforms are regularly considered at the federal and state levels. To the extent that such proposals affect workers compensation, such proposals may adversely affect our business, financial condition and results of operations.

In addition, changes in workers compensation, auto and managed health care laws or regulations may reduce demand for our services, require us to develop new or modified services to meet the demands of the marketplace or reduce the fees that we may charge for our services. One proposal which had been considered in the past, but not enacted by Congress or certain state legislatures, is 24-hour health coverage, in which the coverage of traditional employer-sponsored health plans is combined with workers compensation coverage to provide a single insurance plan for work-related and non-work-related health problems. Incorporating workers compensation coverage into conventional health plans may adversely affect the market for our services because some employers would purchase 24-hour coverage from group health plans, which would reduce the demand for CorVel s workers compensation customers.

Our quarterly sequential revenue may not increase and may decline. As a result, we may fail to meet or exceed the expectations of investors or analysts which could cause our common stock price to decline.

Our quarterly sequential revenue growth may not increase and may decline in the future as a result of a variety of factors, many of which are outside of our control. If changes in our quarterly sequential revenue fall below the expectations of investors or analysts, the price of our common stock could decline substantially. Fluctuations or declines in quarterly sequential revenue growth may be due to a number of factors, including, but not limited to, those listed below and identified throughout this Risk Factors section: the decline in manufacturing employment, the decline in workers compensation claims, the decline in healthcare expenditures, the considerable price competition in a flat-to-declining workers compensation market, litigation, the increase in competition, and the changes and the potential changes in state workers compensation and automobile managed care laws which can reduce demand for our services. These factors create an environment where revenue and margin growth is more difficult to attain and where revenue growth is less certain than historically experienced. Additionally, our technology and preferred provider network face competition from companies that have more resources available to them than we do. Also, some customers may handle their managed care services in-house and may reduce the amount of services which are outsourced to managed care companies such as CorVel. These factors could cause the market price of our common stock to fluctuate substantially. There can be no assurance that our growth rate in the future, if any, will be at or near historical levels.

In addition, the stock market has in the past experienced price and volume fluctuations that have particularly affected companies in the healthcare and managed care markets resulting in changes in the market price of the stock of many companies, which may not have been directly related to the operating performance of those companies.

Due to the foregoing factors, and the other risks discussed in this report, investors should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance.

Exposure to possible litigation and legal liability may adversely affect our business, financial condition and results of operations.

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We, through our utilization management services, make recommendations concerning the appropriateness of providers medical treatment plans of patients throughout the country, and as a result, could be exposed to claims for adverse medical consequences. We do not grant or deny claims for payment of benefits and we do not believe that we engage in the practice of medicine or the delivery of medical services. There can be no assurance, however, that we will not be subject to claims or litigation related to the authorization or denial of claims for payment of benefits or allegations that we engage in the practice of medicine or the delivery of medical services.

In addition, there can be no assurance that we will not be subject to other litigation that may adversely affect our business, financial condition or results of operations, including but not limited to being joined in litigation brought against our customers in the managed care industry. We maintain professional liability insurance and such other coverages as we believe are reasonable in light of our experience to date. If such insurance is insufficient or unavailable in the future at reasonable cost to protect us from liability, our business, financial condition or results of operations could be adversely affected.

In February 2005, Kathleen Roche, D.C., as plaintiff, filed a putative class action in Circuit Court for the 20th Judicial District, St. Clair County, Illinois, against the Company. The case seeks unspecified damages based on the Company s alleged failure to steer patients to medical providers who are members of the CorVel CorCare PPO network and also alleges that we used biased and arbitrary computer software to review medical providers bills. In December 2007, the trial court certified a class in this case of all Illinois health care providers with CorVel PPO agreements, excluding hospitals. In January 2008, we filed with the Illinois Appellate Court a petition for interlocutory appeal of the trial court s class certification order which was denied in April 2008. In May 2008, we appealed the appellate court s denial of its petition for interlocutory appeal which appeal was also denied by the Illinois Supreme Court in September 2008. An unfavorable outcome in this litigation would materially and adversely affect our business, financial condition or results of operations.

If lawsuits against us are successful, we may incur significant liabilities.

We provide to insurers and other payors of health care costs managed care programs that utilize preferred provider organizations and computerized bill review programs. Health care providers have brought against us and our customers individual and class action lawsuits challenging such programs. If such lawsuits are successful, we may incur significant liabilities.

We make recommendations about the appropriateness of providers proposed medical treatment plans for patients throughout the country. As a result, we could be subject to claims arising from any adverse medical consequences. Although plaintiffs have not to date subjected us to any claims or litigation relating to the grant or denial of claims for payment of benefits or allegations that we engage in the practice of medicine or the delivery of medical services, we cannot assure you that plaintiffs will not make such claims in future litigation. We also cannot assure you that our insurance will provide sufficient coverage or that insurance companies will make insurance available at a reasonable cost to protect us from significant future liability.

Our failure to compete successfully could make it difficult for us to add and retain customers and could reduce or impede the growth of our business.

We face competition from PPOs, TPAs and other managed healthcare companies. We believe that as managed care techniques continue to gain acceptance in the workers compensation marketplace, our competitors will increasingly consist of nationally-focused workers compensation managed care service companies, insurance companies, HMOs and other significant providers of managed care products. Legislative reform in some states has been considered, but not enacted to permit employers to designate health plans such as HMOs and PPOs to cover workers compensation claimants. Because many health plans have the ability to manage medical costs for workers compensation claimants, such legislation may intensify competition in the markets served by us. Many of our current and potential competitors are significantly larger and have greater financial and marketing resources than we do, and there can be no assurance that we will continue to maintain our existing customers, our past level of operating performance or be successful with any new products or in any new geographical markets we may enter.

Declines in workers compensation claims may harm our results of operations.

Within the past few years, several states have experienced a decline in the number of workers compensation claims and the average cost per claim which have been reflected in workers compensation insurance premium rate reductions in those states. We believe that declines in workers compensation costs in these states are due principally to intensified efforts by payors to manage and control claim costs, and to a lesser extent, to improved risk management by employers and to legislative reforms. If declines in workers compensation costs occur in many states and persist over the long-term, it would have an adverse impact on our business, financial condition and results of operations.

We provide an outsource service to payors of workers compensation and auto healthcare benefits. These payors include insurance companies, TPAs, municipalities, state funds, and self-insured, self- administered employers. If these payors reduce the amount of work they outsource, our results of operations would be adversely affected.

If the average annual growth in nationwide employment does not offset declines in the frequency of workplace injuries and illnesses, then the size of our market may decline, which may adversely affect our ability to grow.

The rate of injuries that occur in the workplace has decreased over time. Although the overall number of people employed in the workplace has generally increased over time, this increase has only partially offset the declining rate of injuries and illnesses. Our business model is based, in part, on our ability to expand our relative share of the market for the treatment and review of claims for workplace injuries and illnesses. If nationwide employment does not increase or experiences periods of decline, or if workplace injuries and illnesses continue to decline at a greater rate than the increase in total employment, our ability to increase our revenue and earnings could be adversely impacted.

If the utilization by healthcare payors of early intervention services continues to increase, the revenue from our later-stage network and healthcare management services could be negatively affected.

The performance of early intervention services, including injury occupational healthcare, first notice of loss, and telephonic case management services, often result in a decrease in the average length of, and the total costs associated with, a healthcare claim. By successfully intervening at an early stage in a claim, the need for additional cost containment services for that claim often can be reduced or even eliminated. As healthcare payors continue to increase their utilization of early intervention services, the revenue from our later stage network and healthcare management services will decrease.

We face competition for staffing, which may increase our labor costs and reduce profitability.

We compete with other health-care providers in recruiting qualified management and staff personnel for the day-to-day operations of our business, including nurses and other case management professionals. In some markets, the scarcity of nurses and other medical support personnel has become a significant operating issue to health-care providers. This shortage may require us to enhance wages to recruit and retain qualified nurses and other health-care professionals. Our failure to recruit and retain qualified management, nurses and other health-care professionals, or to control labor costs could have a material adverse effect on profitability.

If competition increases, our growth and profits may decline.

The markets for our Network Services and Patient Management Services are also fragmented and competitive. Our competitors include national managed care providers, preferred provider networks, smaller independent providers and insurance companies. Companies that offer one or more workers compensation managed care services on a national basis are our primary competitors. We also compete with many smaller vendors who generally provide unbundled services on a local level, particularly companies with an established relationship with a local insurance company adjuster. In addition, several large workers compensation insurance carriers offer managed care services for their customers, either by performance of the services in-house or by outsourcing to organizations like ours. If these carriers increase their performance of these services in-house, our business may be adversely affected. In addition, consolidation in the industry may result in carriers performing more of such services in-house.

The failure to attract and retain qualified or key personnel may prevent us from effectively developing, marketing, selling, integrating and supporting our services.

We are dependent, to a substantial extent, upon the continuing efforts and abilities of certain key management personnel. In addition, we face competition for experienced employees with professional expertise in the workers compensation managed care area. The loss of key personnel, especially V. Gordon Clemons, Chairman, and Dan Starck, President, Chief Executive Officer, and Chief Operating Officer, or the inability to attract, qualified employees, could have a material unfavorable effect on our business and results of operations.

If we fail to grow our business internally or through strategic acquisitions we may be unable to execute our business plan, maintain high levels of service or adequately address competitive challenges.

Our strategy is to continue internal growth and, as strategic opportunities arise in the workers compensation managed care industry, to consider acquisitions of, or relationships with, other companies in related lines of business. As a result, we are subject to certain growth-related risks, including the risk that we will be unable to retain personnel or acquire other resources necessary to service such growth adequately. Expenses arising from our efforts to increase our market penetration may have a negative impact on operating results. In addition, there can be no assurance that any suitable opportunities for strategic acquisitions or relationships will arise or, if they do arise, that the transactions contemplated could be completed. If such a transaction does occur, there can be no assurance that we will be able to integrate effectively any acquired business. In addition, any such transaction would be subject to various risks associated with the acquisition of businesses, including, but not limited to, the following:

- an acquisition may negatively impact our results of operations because it may require incurring large one-time charges, substantial debt or liabilities; it may require the amortization or write down of amounts related to deferred compensation, goodwill and other intangible assets; or it may cause adverse tax consequences, substantial depreciation or deferred compensation charges;
- we may encounter difficulties in assimilating and integrating the business, technologies, products, services, personnel or operations of companies that are acquired, particularly if key personnel of the acquired company decide not to work for us;
- an acquisition may disrupt ongoing business, divert resources, increase expenses and distract management;
- the acquired businesses, products, services or technologies may not generate sufficient revenue to offset acquisition costs;
- we may have to issue equity or debt securities to complete an acquisition, which would dilute stockholders and could adversely affect the market price of our common stock; and
- acquisitions may involve the entry into a geographic or business market in which we have little or no prior experience.

There can be no assurance that we will be able to identify or consummate any future acquisitions or other strategic relationships on favorable terms, or at all, or that any future acquisition or other strategic relationship will not have an adverse impact on our business or results of operations. If suitable opportunities arise, we may finance such transactions, as well as internal growth, through debt or equity financing. There can be no assurance, however, that such debt or equity financing would be available to us on acceptable terms when, and if, suitable strategic opportunities arise.

Our Internet-based services are dependent on the development and maintenance of the Internet infrastructure.

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We deploy our CareMC and, to a lesser extent, MedCheck services over the Internet. Our ability to deliver our Internet-based services is dependent on the development and maintenance of the infrastructure of the Internet by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security, as well as timely development of complementary products, such as high-speed modems, for providing reliable Internet access and services. The Internet has experienced, and is likely to continue to experience, significant growth in the number of users and the amount of traffic. If the Internet continues to experience increased usage, the Internet infrastructure may be unable to support the demands placed on it. In addition, the performance of the Internet may be harmed by increased usage.

The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage, as well as the availability of the Internet to us for delivery of our Internet-based services. In addition, our customers who use our Web-based services depend on Internet service providers, online service providers and other Web site operators for access to our Web site. All of these providers have experienced significant outages in the past and could experience outages, delays and other difficulties in the future due to system failures unrelated to our systems. Any significant interruptions in our services or increases in response time could result in a loss of potential or existing users, and, if sustained or repeated, could reduce the attractiveness of our services.

An interruption in our ability to access critical data may cause customers to cancel their service and/or may reduce our ability to effectively compete.

Certain aspects of our business are dependent upon our ability to store, retrieve, process and manage data and to maintain and upgrade our data processing capabilities. Interruption of data processing capabilities for any extended length of time, loss of stored data, programming errors or other system failures could cause customers to cancel their service and could have a material adverse effect on our business and results of operations.

In addition, we expect that a considerable amount of our future growth will depend on our ability to process and manage claims data more efficiently and to provide more meaningful healthcare information to customers and payors of healthcare. There can be no assurance that our current data processing capabilities will be adequate for our future growth, that we will be able to efficiently upgrade our systems to meet future demands, or that we will be able to develop, license or otherwise acquire software to address these market demands as well or as timely as our competitors.

The introduction of software products incorporating new technologies and the emergence of new industry standards could render our existing software products less competitive, obsolete or unmarketable.

There can be no assurance that we will be successful in developing and marketing new software products that respond to technological changes or evolving industry standards. If we are unable, for technological or other reasons, to develop and introduce new software products cost-effectively, in a timely manner and in response to changing market conditions or customer requirements, our business, results of operations and financial condition may be adversely affected.

Developing or implementing new or updated software products and services may take longer and cost more than expected. We rely on a combination of internal development, strategic relationships, licensing and acquisitions to develop our software products and services. The cost of developing new healthcare information services and technology solutions is inherently difficult to estimate. Our development and implementation of proposed software products and services may take longer than originally expected, require more testing than originally anticipated and require the acquisition of additional personnel and other resources. If we are unable to develop new or updated software products and services cost-effectively on a timely basis and implement them without significant disruptions to the existing systems and processes of our customers, we may lose potential sales and harm our relationships with current or potential customers.

A breach of security may cause our customers to curtail or stop using our services.

We rely largely on our own security systems, confidentiality procedures and employee nondisclosure agreements to maintain the privacy and security of our and our customers proprietary information. Accidental or willful security breaches or other unauthorized access by third parties to our information systems, the existence of computer viruses in our data or software and misappropriation of our proprietary information could expose us to a risk of information loss, litigation and other possible liabilities which may have a material adverse effect on our business, financial condition and results of operations. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our software are exposed and exploited, and, as a result, a third party obtains unauthorized access to any customer data, our relationships with our customers and our reputation will be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

If we are unable to increase our market share among national and regional insurance carriers and large, self-funded employers, our results may be adversely affected.

Our business strategy and future success depend in part on our ability to capture market share with our cost containment services as national and regional insurance carriers and large, self-funded employers look for ways to achieve cost savings. We cannot assure you that we will successfully market our services to these insurance carriers and employers or that they will not resort to other means to achieve cost savings. Additionally, our ability to capture additional market share may be adversely affected by the decision of potential customers to perform services internally instead of outsourcing the provision of such services to us. Furthermore, we may not be able to demonstrate sufficient cost savings to potential or current customers to induce them not to provide comparable services internally or to accelerate efforts to provide such services internally.

If we lose several customers in a short period, our results may be adversely affected.

Our results may decline if we lose several customers during a short period. Most of our customer contracts permit either party to terminate without cause. If several customers terminate, or do not renew or extend their contracts with us, our results could be materially and adversely affected. Many organizations in the insurance industry have consolidated and this could result in the loss of one or more of our customers through a merger or acquisition. Additionally, we could lose customers due to competitive pricing pressures or other reasons.

We are subject to risks associated with acquisitions of intangible assets.

Our acquisition of other businesses may result in significant increases in our intangible assets and goodwill. We regularly evaluate whether events and circumstances have occurred indicating that any portion of our intangible assets and goodwill may not be recoverable. When factors indicate that intangible assets and goodwill should be evaluated for possible impairment, we may be required to reduce the carrying value of these assets. We cannot currently estimate the timing and amount of any such charges.

If we are unable to leverage our information systems to enhance our outcome-driven service model, our results may be adversely affected.

To leverage our knowledge of workplace injuries, treatment protocols, outcomes data, and complex regulatory provisions related to the workers compensation market, we must continue to implement and enhance information systems that can analyze our data related to the workers compensation industry. We frequently upgrade existing operating systems and are updating other information systems that we rely upon in providing our services and financial reporting. We have detailed implementation schedules for these projects that require extensive involvement from our operational, technological and financial personnel. Delays or other problems we might encounter in implementing these projects could adversely affect our ability to deliver streamlined patient care and outcome reporting to our customers.

The increased costs of professional and general liability insurance may have an adverse effect on our profitability.

The cost of commercial professional and general liability insurance coverage has risen significantly in the past several years, and this trend may continue. In addition, if we were to suffer a material loss, our costs may increase over and above the general increases in the industry. If the costs associated with insuring our business continue to increase, it may adversely affect our business. We believe our current level of insurance coverage is adequate for a company of our size engaged in our business.

The impact of seasonality has a negative effect on our revenue.

While we are not directly impacted by seasonal shifts, we are affected by the change in working days in a given quarter. There are generally fewer working days for our employees to generate revenue in the third fiscal quarter as we experience vacations, inclement weather and holidays.

If the referrals for our patient management services continue to decline, our business, financial condition and results of operations would be materially adversely affected.

We have experienced a general decline in the revenue and operating performance of patient management services. We believe that the performance decline has been due to the following factors: the decrease of the number of workplace injuries that have become longer-term disability cases; increased regional and local competition from providers of managed care services; a possible reduction by insurers on the types of services provided by our patient management business; the closure of offices and continuing consolidation of our patient management operations; and employee turnover, including management personnel, in our patient management business. In the past, these factors have all contributed to the lowering of our long-term outlook for our patient management services. If some or all of these conditions continue, we believe that the performance of our patient management revenues could decrease.

Healthcare providers are becoming increasingly resistant to the application of certain healthcare cost containment techniques; this may cause revenue from our cost containment operations to decrease.

Healthcare providers have become more active in their efforts to minimize the use of certain cost containment techniques and are engaging in litigation to avoid application of certain cost containment practices. Recent litigation between healthcare providers and insurers has challenged certain insurers claims adjudication and reimbursement decisions. Although these lawsuits do not directly involve us or any services we provide, these cases may affect the use by insurers of certain cost containment services that we provide and may result in a decrease in revenue from our cost containment business.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, and delays in completing our internal controls and financial audits, could have a material adverse effect on our business and stock price.

Our fiscal 2009 management assessment revealed material weaknesses in our internal controls over financial close and reporting processes. We are attempting to cure these material weaknesses, but we have not yet completed remediation and there can be no assurance that such remediation will be successful. During the course of our continued testing, we also may identify other significant deficiencies or material weaknesses, in addition to the ones already identified, which we may not be able to remediate in a timely manner or at all. If we continue to fail to achieve and maintain effective internal controls, we will not be able to conclude that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Failure to achieve and maintain an effective internal control environment, and delays in completing our internal controls and financial audits, could cause investors to lose confidence in our reported financial information and us, which could result in a decline in the market price of our common stock, and cause us to fail to meet our reporting obligations in the future, which in turn could impact our ability to raise equity financing if needed in the future.

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Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered securities during the period covered by this report. The following table shows the repurchases of the Company s common stock made by or on behalf of the Company for the quarter ended June 30, 2009 pursuant to a publicly announced plan.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Program
April 1 to April 30, 2009		$	12,682,743	467,257
May 1 to May 31, 2009			12,682,743	467,257
June 1 to June 30, 2009	29,676	21.83	12,712,419	437,581
Total	29,676	$21.83	12,712,419	437,581

In 1996, the Company s Board of Directors authorized a stock repurchase program for up to 100,000 shares of the Company s common stock. The Company s Board of Directors has periodically increased the number of shares authorized for repurchase under the repurchase program. The most recent increase occurred in September 2008 and brought the number of shares authorized for repurchase over the life of the stock repurchase program to 13,150,000 shares. There is no expiration date for the repurchase program.

Item 3 Defaults Upon Senior Securities None.

Item 4 Submission of Matters to a Vote of Security Holders None.

Item 5 Other Information None.

Item 6 Exhibits

3.1 Amended and Restated Certificate of Incorporation of the Company. Incorporated herein by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 filed on August 9, 2007.

3.2 Amended and Restated Bylaws of the Company. Incorporated herein by reference to Exhibit 3.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 filed on August 14, 2006.

3.3 Certificate of Designation Increasing the Number of Shares of Series A Junior Participating Preferred Stock. Incorporated herein by reference to Exhibit 3.1 to the Company s Form 8-K filed on November 24, 2008.

10.1 Credit Agreement dated May 28, 2009 by and between CorVel Corporation and Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.16 to the Company s Current Report on Form 8-K filed on June 4, 2009.

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10.2 Revolving Line of Credit Note dated May 28, 2009 by CorVel Corporation in favor of Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.17 to the Company s Current Report on Form 8-K filed on June 4, 2009.
31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CORVEL CORPORATION

By: Daniel J. Starck
Daniel J. Starck, President,
Chief Executive Officer, and Chief Operating Officer

By: Scott R. McCloud
Scott R. McCloud,
Chief Financial Officer

August 7, 2009