CORVEL CORP
Form 10-Q
August 05, 2011

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, 2011

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 þ 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 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 28, 2011 was 11,548,983.

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

	March 31, 2011	June 30, 2011 (Unaudited)
Assets		
Current Assets		
Cash and cash equivalents (Note A)	$ 12,269,000	$ 17,577,000
Customer deposits	5,279,000	4,348,000
Accounts receivable, net	48,964,000	48,813,000
Prepaid taxes and expenses	6,417,000	6,659,000
Deferred income taxes	9,298,000	9,485,000
Total current assets	82,227,000	86,882,000
Property and equipment, net	38,500,000	42,148,000
Goodwill	36,769,000	36,769,000
Other intangibles, net (Note F)	6,729,000	6,581,000
Other assets	0	70,000
TOTAL ASSETS	$ 164,225,000	$ 172,450,000
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts and taxes payable	$ 14,590,000	$ 19,393,000
Accrued liabilities	40,248,000	37,722,000
Total current liabilities	54,838,000	57,115,000
Deferred income taxes	9,748,000	9,748,000
Commitments and contingencies (Note G and H)		
Stockholders Equity		
Common stock, $.0001 par value: 60,000,000 shares authorized; 26,122,084 shares issued (11,630,921 shares outstanding, net of Treasury shares) and 26,146,901 shares issued (11,578,208 shares outstanding, net of Treasury shares) at March 31, 2011 and June 30, 2011, respectively	3,000	3,000
Paid-in capital	100,073,000	101,496,000
Treasury Stock (14,491,163 shares at March 31, 2011 and 14,568,693 shares at June 30, 2011)	(248,931,000)	(252,604,000)
Retained earnings	248,494,000	256,692,000

Total stockholders equity	99,639,000	105,587,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 164,225,000	$ 172,450,000

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION
CONSOLIDATED INCOME STATEMENTS UNAUDITED

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2011
REVENUES	$ 91,503,000	$ 102,307,000
Cost of revenues	67,700,000	76,764,000
Gross profit	23,803,000	25,543,000
General and administrative expenses	11,486,000	12,294,000
Income before income tax provision	12,317,000	13,249,000
Income tax provision	4,557,000	5,051,000
NET INCOME	$ 7,760,000	$ 8,198,000
Net income per common and common equivalent share		
Basic	$ 0.65	$ 0.71
Diluted	$ 0.64	$ 0.70
Weighted average common and common equivalent		
Basic	11,957,000	11,617,000
Diluted	12,187,000	11,787,000

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2011
Cash flows from Operating Activities		
NET INCOME	$ 7,760,000	$ 8,198,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,861,000	3,396,000
Loss on disposal of assets	141,000	67,000
Stock compensation expense	590,000	658,000
Write-off of uncollectible accounts	730,000	616,000
Changes in operating assets and liabilities		
Accounts receivable	(2,173,000)	(465,000)
Customer deposits	(548,000)	931,000
Prepaid taxes and expenses	2,459,000	(242,000)
Other assets	212,000	(63,000)
Accounts and taxes payable	739,000	4,803,000
Accrued liabilities	(1,629,000)	(2,526,000)
Deferred income tax	(223,000)	(194,000)
Net cash provided by operating activities	10,919,000	15,179,000
Cash Flows from Investing Activities		
Purchase of property and equipment	(5,090,000)	(6,963,000)
Net cash (used in) investing activities	(5,090,000)	(6,963,000)
Cash Flows from Financing Activities		
Purchase of treasury stock	(5,469,000)	(3,673,000)
Tax effect of stock option exercises	248,000	284,000
Exercise of common stock options	592,000	481,000
Net cash (used in) financing activities	(4,629,000)	(2,908,000)
Increase in cash and cash equivalents	1,200,000	5,308,000
Cash and cash equivalents at beginning of period	10,242,000	12,269,000
Cash and cash equivalents at end of period	$ 11,442,000	$ 17,577,000

Supplemental Cash Flow Information:

Income taxes paid	$ 827,000	$ 291,000
Purchase of software license under finance agreement	$ 1,700,000	

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

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, 2011. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the March 31, 2011 audited financial statements have been omitted from these interim financial statements.

During fiscal 2011, the Company implemented Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 855-10-05 through 885-10-55, *Subsequent Events* as amended by ASU 2010-09. This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. In accordance with ASU 2010-09 the Company evaluated all subsequent events or transactions. During the period subsequent to June 30 and through August 3, 2011 the Company repurchased 46,090 shares for $2.2 million or approximately $48.66 per share. These shares were repurchased under the Company s ongoing share repurchase program described in Note C.

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, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2012. For further information, refer to the consolidated financial statements and footnotes for the fiscal year ended March 31, 2011 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 in compliance 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 values assigned to intangible assets, capitalized software development, the allowance for doubtful accounts, accrual for income taxes, purchase price allocation for acquisitions, and accrual for self-insurance reserves loss contingencies, share-based payments related to performance based awards, estimated claims for claims administration revenue recognition, and estimates used in stock option valuations.

Cash and Cash Equivalents: Cash and cash equivalents consist of short-term highly-liquid investment-grade interest-bearing securities with maturities of 90 days or less when purchased.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

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

Fair Value of Financial Instruments: The Company applies ASC 820, Fair Value Measurements and Disclosures with respect to fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company s Consolidated Financial Statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. ASC 820 prioritizes the inputs used in measuring fair value into the following hierarchy:

Level 1 Quoted market prices in active markets for identical assets or liabilities;

Level 2 Observable inputs other than those included in Level 1 (for example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets); and

Level 3 Unobservable inputs reflecting management s own assumptions about the inputs used in estimating the value of the asset.

The carrying amount of the Company s financial instruments (i.e. cash, accounts receivable, accounts payable, etc.) approximate their fair values due to the short term nature of the instruments at March 31, 2011 and June 30, 2011. The Company has no Level 2 or Level 3 assets.

Goodwill: The Company accounts for its business combinations in accordance with FASB ASC 805-10 through ASC 805-50 *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 FASB ASC 350-10 through ASC 350-30, 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, no material impairment existed and, accordingly, no loss was recognized.

Revenue Recognition: The Company 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. For the Company s services, as the Company s professional staff performs work, they are contractually permitted to bill for fees earned in fraction of an hour increments worked or by units of production. The Company recognizes revenue as the time is worked or as units of production are completed, which is when the revenue is earned and realized. Labor costs are recognized as the costs are incurred. The Company derives the majority of its revenue from the sale of Network Solutions and Patient Management services. Network Solutions and Patient Management services may be sold individually or combined with any of the services the Company provides. When a sale combines multiple elements, the Company accounts for multiple element arrangements in accordance with the guidance included in ASC 605-25.

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

In accordance with ASC 605-25, the Company allocates revenue for transactions or collaborations that include multiple elements to each unit of accounting based on its relative fair value, and recognizes revenue for each unit of accounting when the revenue recognition criteria have been met. The price charged when the element is sold separately generally determines fair value. When our customers purchase several products from CorVel, the pricing of the products sold is generally the same as if the product were sold on an individual basis. As a result, the fair value of each product sold in a multiple element arrangement is almost always determinable. The Company recognizes revenue for delivered elements when the delivered elements have standalone value and the Company has objective and reliable evidence of fair value for each undelivered element. If the fair value of any undelivered element included in a multiple element arrangement cannot be objectively determined, revenue is deferred until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. Based upon the nature of our products, bundled products are generally delivered in the same accounting period.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, Multiple Deliverable Revenue Arrangements a consensus of FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 provides for less restrictive separation criteria that must be met for a deliverable to be considered a separate unit of accounting. Additionally, under this Standard, there is a hierarchy for determining the selling price of a unit of accounting and consideration must be allocated using a relative-selling price method. ASU 2009-13 was be effective for CorVel Corporation on April 1, 2011. We reviewed the requirements of ASU 2009-13 and determined the pronouncement had no material impact on our financial position or results of operations.

Accounts Receivable: The majority of the Company s accounts receivable are due from companies in the property and casualty insurance industries, self-insured employers, and government entities. Accounts receivable are due within 30 days and are stated as amounts due from customers net of an allowance for doubtful accounts. Those 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, 2011 or June 30, 2011. No one customer accounted for 10% or more of revenue during either of the three month periods ended June 30, 2010 or 2011.

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 one to seven years. The Company accounts for internally developed software costs in accordance with FASB ASC 350-40, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, which allows for the capitalization of software developed 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.

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 balance of the unrecognized tax benefits as of March 31, 2011 and June 30, 2011 was $1,608,000 and $1,503,000, respectively.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

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

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 2011 quarter compared to the same quarter of the prior year primarily due to repurchase of shares under the Company s share repurchase program. See also Note D.

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, 2011, options for up to 9,682,500 shares of the Company s common stock may be granted to key 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 and the remaining 75% vesting ratably each month for the next 36 months. The options granted to employees and the board of directors expire at the end of five years and ten years from date of grant, respectively.

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 9.05% and 9.30% for the three months ended June 30, 2010 and 2011, 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, 2010 and 2011 using the Black-Scholes option-pricing model:

	Three Months Ended June 30,	
	2010	2011
Risk-free interest rate	2.15%	1.88%
Expected volatility	46%	46%
Expected dividend yield	0.00%	0.00%
Expected forfeiture rate	9.05%	9.30%
Expected weighted average life of option in years	4.8 years	4.7 years

All options granted in the three months ended June 30, 2010 and 2011 were granted at fair market value and are non-statutory stock options.

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CORVEL CORPORATION
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Note B Stock Options and Stock-Based Compensation (continued)

In May 2006, the Company s Board of Directors granted performance-based stock options for 149,175 shares of common stock at fair market value at the date of grant, which would only vest if the Company attained certain earnings per share targets, as established by the Company s Board of Directors, for calendar years 2008, 2009, and 2010. These options were granted with an exercise price of $15.76 per share, which was the fair market value at the date of grant, and have a valuation of $6.75 per share. The Company did not attain the targets for calendar years 2008 and 2009. The Company attained the earnings per share target for calendar year 2010 which allowed for options for 68,025 shares to vest. The Company recognized $413,000 in stock compensation expense in fiscal 2011, and $459,000, cumulatively, for these options. No further stock options will vest under this grant and there will be no further recognition of stock compensation expense.

In February 2008, 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 all services sold to claims administration clients 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 by these optionees with each region having a different target. These options were granted with an exercise price of $25.10 per share, which was the fair market value at the date of grant, and have a valuation of $9.81 per share. Currently, management has determined that optionees with 12,000 shares attained the revenue targets for calendar year 2009 and 2010, and, accordingly, the Company has recognized $33,000 during fiscal 2011, $11,000 during the quarter ended June 30, 2011, and $94,000, cumulatively, since the date of the option grant. Currently, management has determined that it is not probable that the revenue targets for the remaining optionees will be attained and, accordingly, the Company has recognized no stock compensation expense for those options.

In February 2009, the Company s Board of Directors granted performance-based stock options for 100,000 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 2009, 2010, and 2011. Net of cancelations due to employee terminations, options for 95,000 shares remained under these performance-based stock options as of June 30, 2011. These options were granted with an exercise price of $19.79 per share, which was the fair market value at the date of grant, and have a valuation of $8.21 per share. The Company attained these targets for calendar 2009 and 2010, and, accordingly, the Company has recognized stock compensation expense of $221,000 during fiscal year 2011, $78,000 during the quarter ended June 30, 2011, and $624,000, cumulatively, since the date of the option grants.

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, which will only vest if the Company attains certain revenue targets for all services sold to claims administration clients 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 with an exercise price of $20.37 per share, which was the fair market value at the date of grant, and have a valuation of $8.45 per share. The Company did not achieve the revenue target for calendar year 2009 or 2010. Currently, management has determined that it is not probable that the Company will attain the revenue targets for calendar year 2011, and, accordingly, the Company has recognized no stock compensation expense for this stock option grant during fiscal 2011 or the quarter ended June 30, 2011.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

Note B Stock Options and Stock-Based Compensation (continued)

In November 2009, the Company s Board of Directors granted performance-based stock options for 110,000 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 2010, 2011, and 2012. These options were granted with an exercise price of $28.92 per share, which was the fair market value at the date of grant, and have a valuation of $12.57 per share. The Company attained the earnings per share target in calendar year 2010, and currently, management has determined that it is probable that the Company will attain the earnings per share targets for calendar year 2011. Accordingly, the Company has recognized $337,000 of stock compensation expense for this stock option grant during fiscal 2011, $104,000 for the quarter ended June 30, 2011, and $622,000, cumulatively.

In December 2010, the Company s Board of Directors granted performance-based stock options for 100,000 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 2011, 2012, and 2013. These options were granted with an exercise price of $46.14 per share, which was the fair market value at the date of grant, and have a valuation of $18.72 per share. Management has determined that it is probable that the Company will attain the earnings per share targets for calendar year 2011. Accordingly, the Company has recognized $140,000 of stock compensation expense for this stock option grant during fiscal 2011, $140,000 during the quarter ended June 30, 2011, and $281,000, cumulatively.

The table below shows the amounts recognized in the financial statements for stock compensation expense for time based options and performance based options the three months ended June 30, 2010 and 2011, respectively. Included in the three months ended June 30, 2011 stock compensation expense is $334,000 for the expense related to the performance based options.

	Three Months Ended June 30, 2010	June 30, 2011
Cost of revenues	$ 134,000	$ 126,000
General and administrative	456,000	532,000
Total cost of stock-based compensation included in income before income tax provision	590,000	658,000
Amount of income tax benefit recognized	(218,000)	(256,000)
Amount charged against net income	$ 372,000	$ 402,000
Effect on diluted net income per share	$ (0.03)	$ (0.03)

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

Note B Stock Based Compensation and Stock Options (continued)

Summarized information for all stock options for the three months ended June 30, 2010 and 2011 follows:

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2011	
	Shares	Average Price	Shares	Average Price
Options outstanding, beginning	1,065,403	$ 22.57	813,662	$ 29.26
Options granted	48,000	36.55	15,675	49.56
Options exercised	(34,221)	17.31	(28,544)	22.85
Options cancelled	(160)	28.28	(3,416)	29.47
Options outstanding, ending	1,079,022	$ 23.35	797,377	$ 29.89

The following table summarizes the status of stock options outstanding and exercisable at June 30, 2011:

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	Exercisable Options Weighted Average Exercise Price
$15.55 to $21.76	198,247	2.81	$ 18.97	147,295	$18.57
$21.77 to $27.15	173,340	2.73	$ 25.57	115,165	$25.63
$27.16 to $35.20	213,553	3.09	$ 30.17	97,495	$30.36
$35.20 to $49.56	212,237	4.63	$ 43.33	13,638	$37.51
Total	797,377	3.35	$ 29.89	373,593	$24.51

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

Note B Stock Based Compensation and Stock Options (continued)

A summary of the status for all outstanding options at June 30, 2011, and changes during the three months 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, 2011
Options outstanding at April 1, 2011	813,662	$ 29.26		
Granted	15,675	49.56		
Exercised	(28,544)	22.85		
Cancelled forfeited	(2,928)	33.24		
Cancelled expired	(488)	14.84		
Ending outstanding	797,377	$ 29.89	3.35	$13,608,574
Ending vested and expected to vest	731,991	$ 29.14	3.28	$13,032,835
Ending exercisable at June 30, 2011	373,593	$ 24.51	2.64	$ 8,364,683

The weighted-average grant-date fair value of options granted during the three months ended June 30, 2010 and 2011, was $15.27 and $20.31, respectively.

Note C Treasury Stock and Subsequent Event

The Company s Board of Directors initially approved the commencement of a share repurchase program in the fall of 1996. In May 2010, the Board approved an 850,000 share expansion of the repurchase program to 15,000,000 shares over the life of the share repurchase program. Since the commencement of the share repurchase program, the Company has spent $253 million to repurchase 14,568,693 shares of its common stock, equal to 56% of the outstanding common stock had there been no repurchases. The average price of these repurchases is $17.34 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, 2011, the Company repurchased 77,530 shares for $3.7 million. The Company had 11,578,208 shares of common stock outstanding as of June 30, 2011, net of the 14,568,693 shares in treasury. Subsequent to the end of the quarter, through July 28, 2011, the Company repurchased 46,090 shares of common stock for $2.2 million or $48.66 a share.

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CORVEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

Note D Weighted Average Shares and Net Income Per Share

Weighted average basic common and common equivalent shares decreased from 11,957,000 for the quarter ended June 30, 2010 to 11,617,000 for the quarter ended June 30, 2011. Weighted average diluted common and common equivalent shares decreased from 12,187,000 for the quarter ended June 30, 2010 to 11,787,000 for the quarter ended June 30, 2011. The net decrease in both of these weighted share calculations is due to the repurchase of common stock as noted above, 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, 2010 and 2011, are as follows:

	Three Months Ended June 30,	
	2010	2011
Net Income	$ 7,760,000	$ 8,198,000
Basic:		
Weighted average common shares outstanding	11,957,000	11,617,000
Net Income per share	$ 0.65	$ 0.71
Diluted:		
Weighted average common shares outstanding	11,957,000	11,617,000
Treasury stock impact of stock options	230,000	170,000
Total common and common equivalent shares	12,187,000	11,787,000
Net Income per share	$ 0.64	$ 0.70

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CORVEL CORPORATION
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June 30, 2011

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 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, and set the exercise price of each right at $118.

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