CORVEL CORP
Form 10-Q
November 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

or

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 No

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 No

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 Accelerated filer

Non-accelerated filer Smaller Reporting Company

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

The number of shares outstanding of the registrant's Common Stock, $0.0001 par value per share, as of October 28, 2016 was 19,492,537.

CORVEL CORPORATION

FORM 10-Q

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Part I - Financial Information

Item 1 - Financial Statements

CORVEL CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31, 2016	September 30, 2016 (Unaudited)
Assets		
Current Assets		
Cash and cash equivalents (Note A)	$32,779,000	$40,862,000
Customer deposits	25,649,000	31,189,000
Accounts receivable, net	59,747,000	60,445,000
Prepaid taxes and expenses	4,933,000	6,201,000
Total current assets	123,108,000	138,697,000
Property and equipment, net	53,268,000	57,386,000
Goodwill	36,814,000	36,814,000
Other intangibles, net (Note F)	4,287,000	4,069,000
Other assets	2,792,000	3,272,000
TOTAL ASSETS	$220,269,000	$240,238,000
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts and taxes payable	$13,233,000	$16,172,000
Accrued liabilities	67,182,000	70,439,000
Total current liabilities	80,415,000	86,611,000
Deferred income taxes	7,906,000	7,479,000
Total liabilities	88,321,000	94,090,000
Commitments and contingencies (Notes G and H)		
Stockholders' Equity		
Common stock, $.0001 par value: 120,000,000 shares authorized at March 31, 2016 and September 30, 2016; 53,448,672 shares issued (19,562,413 shares outstanding, net of Treasury shares) and 53,540,231 shares issued (19,552,218 shares outstanding, net of Treasury shares) at March 31, 2016 and September 30, 2016, respectively	3,000	3,000
Paid-in capital	130,465,000	134,421,000
Treasury Stock (33,886,259 shares at March 31, 2016 and 33,988,013 shares at September 30, 2016)	(391,803,000)	(396,002,000)
Retained earnings	393,283,000	407,726,000

Total stockholders' equity	131,948,000	146,148,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$220,269,000	$240,238,000

See accompanying notes to consolidated financial statements.

CORVEL CORPORATION

CONSOLIDATED INCOME STATEMENTS – UNAUDITED

	Three Months Ended September 30,	
	2015	2016
REVENUES	$124,460,000	$128,219,000
Cost of revenues	97,776,000	102,307,000
Gross profit	26,684,000	25,912,000
General and administrative expenses	13,209,000	14,644,000
Income before income tax provision	13,475,000	11,268,000
Income tax provision	5,208,000	4,316,000
NET INCOME	$8,267,000	$6,952,000
Net income per common and common equivalent share		
Basic	$0.42	$0.36
Diluted	$0.41	$0.35
Weighted average common and common equivalent shares		
Basic	19,902,000	19,581,000
Diluted	20,063,000	19,733,000

See accompanying notes to consolidated financial statements.

CORVEL CORPORATION

CONSOLIDATED INCOME STATEMENTS – UNAUDITED

	Six Months Ended September 30,	
	2015	2016
REVENUES	$251,399,000	$256,678,000
Cost of revenues	198,532,000	205,184,000
Gross profit	52,867,000	51,494,000
General and administrative expenses	28,171,000	28,105,000
Income before income tax provision	24,696,000	23,389,000
Income tax provision	9,529,000	8,946,000
NET INCOME	$15,167,000	$14,443,000
Net income per common and common equivalent share		
Basic	$0.76	$0.74
Diluted	$0.75	$0.73
Weighted average common and common equivalent shares		
Basic	20,026,000	19,577,000
Diluted	20,199,000	19,743,000

See accompanying notes to consolidated financial statements.

CORVEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED

	Six Months Ended September 30,	
	2015	2016
Cash flows from Operating Activities		
NET INCOME	$15,167,000	$14,443,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,916,000	10,410,000
Loss (gain) on disposal of assets	(5,000)	8,000
Stock compensation expense	1,104,000	1,128,000
Write-off of uncollectible accounts	897,000	1,080,000
Deferred income tax	(399,000)	(427,000)
Changes in operating assets and liabilities		
Accounts receivable	(2,585,000)	(1,779,000)
Customer deposits	(7,403,000)	(5,540,000)
Prepaid taxes and expenses	5,205,000	(1,268,000)
Other assets	(571,000)	(213,000)
Accounts and taxes payable	(271,000)	(552,000)
Accrued liabilities	3,535,000	3,257,000
Net cash provided by operating activities	24,590,000	20,547,000
Cash Flows from Investing Activities		
Investment in private equity	(600,000)	(250,000)
Purchase of property and equipment	(8,025,000)	(10,843,000)
Net cash (used in) investing activities	(8,625,000)	(11,093,000)
Cash Flows from Financing Activities		
Purchase of treasury stock	(18,775,000)	(4,199,000)
Tax effect of stock option exercises	475,000	869,000
Exercise of common stock options	1,525,000	1,758,000
Exercise of employee stock purchase options	181,000	201,000
Net cash (used in) financing activities	(16,594,000)	(1,371,000)
(Decrease) Increase in cash and cash equivalents	(629,000)	8,083,000
Cash and cash equivalents at beginning of period	25,516,000	32,779,000
Cash and cash equivalents at end of period	$24,887,000	$40,862,000
Supplemental Cash Flow Information:		
Income taxes paid	$6,946,000	$9,502,000
Purchase of software license under finance agreement	$—	$3,492,000

See accompanying notes to consolidated financial statements.

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

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 United States Securities and Exchange Commission ("SEC"). 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, 2016. Accordingly, note disclosures which would substantially duplicate the disclosures contained in the March 31, 2016 audited financial statements have been omitted from these interim financial statements.

The Company evaluated all subsequent events or transactions through the date of filing this report. During the period subsequent to the quarter ended September 30, 2016, the Company repurchased 61,880 shares of common stock for $2,197,000 at an average of $35.51 per share of common stock. These shares of common stock were repurchased under the Company's ongoing share repurchase program described in Note C.

Certain information and note 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 considered necessary for a fair presentation have been included. Operating results for the three and six months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2017. For further information, refer to the consolidated financial statements and notes for the fiscal year ended March 31, 2016 included in the Company's Annual Report on Form 10-K filed with the SEC on June 10, 2016.

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, accruals for income taxes, share-based payments related to performance-based awards, loss contingencies, estimated claims for claims administration revenue recognition, estimates used in stock option valuations, and accruals for self-insurance reserves.

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. Customer deposits represent cash that is expected to be returned or applied towards payment within one year through our provider reimbursement services.

Fair Value of Financial Instruments: The Company applies Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures," which defines fair value,

establishes a framework for measuring fair value, and expands disclosures about fair value measurements 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 equivalents, accounts receivable, accounts payable) are all Level 1 and approximate their fair values at March 31, 2016 and September 30, 2016. The Company has no Level 2 or Level 3 financial instruments.

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

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

Investment in Private Equity: The Company has made an investment of $2,250,000 into a private equity limited partnership (the "partnership") that invests in start-up companies primarily in the data analytics industry. The Company accounts for the investment on the cost method and will periodically review the investment for possible impairment. There was no impairment on the investment for the year ended March 31, 2016 and for the six months ended September 30, 2016. The investment is recorded in other assets on the accompanying consolidated balance sheets. Management has not identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment, and in accordance with ASC 825-10-50-16 through 50-19, it is not practicable to estimate the fair value of the investment due to the fact the investment is in a diversified portfolio of companies whose shares are not traded on the open market.

Goodwill: The Company accounts for its business combinations in accordance with the 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.

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 its revenue from the sale of network solutions and patient management services. Network solutions and patient management services may be sold individually or combined. When a sale combines multiple elements, the Company accounts for multiple element arrangements in accordance with the guidance included in ASC 605-25.

The multiple-deliverable arrangements consist of bundled managed care services, which includes various units of accounting such as network solutions, and patient management which includes claims administration. Such elements are considered separate units of accounting due to each element having value to the customer on a stand-alone basis. The selling price for each unit of accounting is determined using contract price and management estimates. When the Company's customers purchase several products, the pricing of the products sold is generally the same as if the products were sold on an individual basis. Revenue is recognized as the work is performed in accordance with the Company's customer contracts. Based upon the nature of the Company's products, bundled managed care elements are generally delivered in the same accounting period. The Company recognizes revenue for patient management claims administration services over the life of the customer contract. The Company estimates, based upon prior experience in managing claims, the deferral amount from when the claim is received to when the customer contract expires.

Recent Accounting Pronouncements: On May 28, 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606, Revenue from Contracts with Customers. This standard provides principles for recognizing revenue for the transfer of

promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one-year delay of the effective date of this new revenue recognition standard. The guidance will now be effective for our fiscal year beginning April 1, 2018. We are currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

On November 20, 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 alters the presentation of deferred tax items on a classified balance sheet requiring companies to unify previously separated current and noncurrent items and present them as a single noncurrent amount. We have elected to early adopt this standard as of March 31, 2016 and have retrospectively applied the amendments to all periods presented.

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

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

In January 2016, the FASB issued ASU 2016-01 regarding Subtopic 825-10, Financials Instruments — Overall: Recognition and Measurements of Financial Assets and Financial Liabilities. The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. It requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. We are currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which lays out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective April 1, 2019, with early adoption permitted. The standard is to be applied using a modified retrospective transition method. We are in the process of determining the effect on our consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows. For public companies, the new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016, with early adoption permitted. We are in the process of evaluating the impact of adoption of this guidance on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows, which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The new guidance is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

Accounts Receivable: The majority of the Company’s accounts receivable is due from companies in the property and casualty insurance industries, self-insured employers, and government entities. Accounts receivable are generally 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, 2016 or September 30, 2016. No one customer accounted for 10% or more of revenue during the three and six months ended September 30, 2015 and 2016.

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 two to seven years or the life of the lease. 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.

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

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

Income Taxes: The Company provides for income taxes in accordance with provisions specified in ASC 740, "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 depends on 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.

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 share-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 September 2016 quarter compared to the same quarter of the prior year primarily due to repurchases 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 September 30, 2016, options exercisable for up to 19,365,000 shares of the Company's common stock may be granted over the life of the Plan 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 12.28% and 13.16% for the three months ended September 30, 2015 and 2016, 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 September 30, 2015 and 2016 using the Black-Scholes option-pricing model:

	Three Months Ended September 30,	
	2015	2016
Risk-free interest rate	1.61%	1.03
Expected volatility	44%	42%
Expected dividend yield	0.00%	0.00%
Expected forfeiture rate	12.28%	13.16%
Expected weighted average life of option in years	4.4 years	4.4 years

All options granted in the six months ended September 30, 2015 and 2016 were granted with an exercise price equal to the fair value of the Company's common stock on the grant date and are non-statutory stock options.

For the three months ended September 30, 2015 and 2016, the Company recorded share-based compensation expense of $488,000 and $612,000, respectively. For the six months ended September 30, 2015 and 2016, the Company recorded share-based compensation expense of $1,104,000 and $1,128,000, respectively. The table below shows the amounts recognized in the consolidated financial statements for stock compensation expense for time-based options and performance-based options during the three and six months ended September 30, 2015 and 2016, respectively.

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2016
Cost of revenues	$321,000	$ 395,000
General and administrative	167,000	217,000
Total cost of stock-based compensation included in income before income tax provision	488,000	612,000
Amount of income tax benefit recognized	(188,000)	(234,000)
Amount charged against net income	$300,000	$ 378,000
Effect on basic earnings per share	$(0.02)	$ (0.02)
Effect on diluted earnings per share	$(0.01)	$ (0.02)

	Six Months Ended September 30, 2015	Six Months Ended September 30, 2016
Cost of revenues	$633,000	$ 732,000
General and administrative	471,000	396,000
Total cost of stock-based compensation included in income before income tax provision	1,104,000	1,128,000
Amount of income tax benefit recognized	(425,000)	(432,000)
Amount charged against net income	$679,000	$ 696,000
Effect on basic net income per share	$(0.03)	$ (0.04)
Effect on diluted net income per share	$(0.03)	$ (0.04)

Summarized information for all stock options for the three and six months ended September 30, 2015 and 2016 follows:

Three Months Ended September 30, 2015		Three Months Ended September 30, 2016	
Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price

Options outstanding, beginning	1,167,042	$ 28.15	1,074,521	$ 31.56
Options granted	47,300	33.15	45,600	43.32
Options exercised	(59,804)	16.91	(14,593)	20.61
Options cancelled/forfeited	(18,952)	36.25	(2,609)	39.33
Options outstanding, ending	1,135,586	$ 28.81	1,102,919	$ 32.17

	Six Months Ended September 30, 2015		Six Months Ended September 30, 2016	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning	1,163,179	$ 27.65	1,115,465	$ 28.81
Options granted	87,000	33.85	90,500	44.52
Options exercised	(95,641)	17.75	(91,216)	21.87
Options cancelled/forfeited	(18,952)	36.25	(11,830)	36.36
Options outstanding, ending	1,135,586	$ 28.81	1,102,919	$ 32.17

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

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

The following table summarizes the status of stock options outstanding and exercisable at September 30, 2016:

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
$12.71 to $23.10	335,209	2.51	$ 20.45	304,139	$ 20.19
$23.11 to $34.77	190,134	2.86	$ 30.75	118,443	$ 28.96
$34.78 to $35.76	233,099	3.75	$ 34.78	8,390	$ 34.78
$35.77 to $46.20	344,477	3.72	$ 43.50	103,684	$ 43.26
Total	1,102,919	3.21	$ 32.17	534,656	$ 26.69

A summary of the status for all outstanding options at September 30, 2016, and changes during the three months then ended, is presented in the table below:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value as of September 30, 2016
Options outstanding at July 1, 2016	1,074,521	$ 31.56		
Granted	45,600	43.32		

Exercised	(14,593)	20.61		
Cancelled – forfeited	(2,110)	39.21		
Cancelled – expired	(499)	39.82		
Ending outstanding	1,102,919	$ 32.17	3.21	$8,387,418
Ending vested and expected to vest	971,976	$ 31.50	3.09	$8,045,668
Ending exercisable at September 30, 2016	534,656	$ 26.69	2.55	$6,712,666

The weighted-average grant-date fair value of options granted during the three months ended September 30, 2015 and 2016, was $12.53 and $14.78, respectively.

Included in the above-noted stock option grants and stock compensation expense are performance-based stock options under which vesting occurs only upon the Company achieving certain revenue or earnings per shares targets on a calendar year basis as determined by the Company's Board of Directors. These options were valued in the same manner as the time-vesting options. However, the Company only recognizes stock compensation to the extent that the probable targets are determined to be achieved which allow the performance options to vest. The Company recognized ($63,000) and ($31,000) of stock compensation expense for the three months ended September 30, 2015 and 2016, respectively, for performance-based stock options.

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 November 2015, the Company's Board of Directors approved a 1,000,000 share expansion to its existing stock repurchase plan, increasing the total number of shares of the Company's common stock approved for repurchase over the life of the program to 35,000,000 shares of the Company's common stock from the previous limit of 34,000,000 shares of the Company's common stock. Since the commencement of the share repurchase program, the Company has spent $396 million to repurchase 33,988,013 shares of its common stock, equal to 63% of the outstanding common stock had there been no repurchases. The average price of these repurchases was $11.65 per share. These repurchases were funded primarily from the net earnings of the Company, along with the proceeds from the exercise of common stock options. During the three and six months ended September 30, 2016, the Company repurchased 63,594 shares of the Company's common stock for $2.6 million at an average price of $40.12 per share of common stock and 101,754 shares of the Company's common stock for $4.2 million at an average price of $41.27 per share of common stock, respectively. The Company had 19,552,218 shares of common stock outstanding as of September 30, 2016, net of the 33,988,013 shares in treasury. During the period subsequent to the quarter ended September 30, 2016, the Company repurchased 61,880 shares of common stock for $2,197,000 at an average price of $35.51 per share of common stock.

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

Note D — Weighted Average Shares and Net Income Per Share

Weighted average basic common shares decreased from 19,902,000 for the quarter ended September 30, 2015 to 19,581,000 for the quarter ended September 30, 2016. Weighted average diluted common and common equivalent shares decreased from 20,063,000 for the quarter ended September 30, 2015 to 19,733,000 for the quarter ended September 30, 2016. 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 and six months ended September 30, 2015 and 2016, are as follows:

	Three Months Ended September 30,	
	2015	2016
Net Income	$8,267,000	$6,952,000
Basic:		
Weighted average common shares outstanding	19,902,000	19,581,000
Net Income per share	$0.42	$0.36
Diluted:		
Weighted average common shares outstanding	19,902,000	19,581,000
Treasury stock impact of stock options	161,000	152,000
Total common and common equivalent shares	20,063,000	19,733,000
Net Income per share	$0.41	$0.35

	Six Months Ended September 30,	
	2015	2016
Net Income	$15,167,000	$14,443,000
Basic:		
Weighted average common shares outstanding	20,026,000	19,577,000
Net Income per share	$0.76	$0.74
Diluted:		
Weighted average common shares outstanding	20,026,000	19,577,000
Treasury stock impact of stock options	173,000	166,000
Total common and common equivalent shares	20,199,000	19,743,000
Net Income per share	$0.75	$0.73

Note E — Shareholder Rights Plan

During fiscal year 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.

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 Company's 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.

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

Note E — Shareholder Rights Plan (continued)

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.

Note F — Other Intangible Assets

Other intangible assets consisted of the following at March 31, 2016:

Item	Life	Cost	Fiscal 2016 Amortization Expense	Accumulated Amortization at March 31, 2016	Cost, Net of Accumulated Amortization at March 31, 2016
Covenants Not to Compete	5 Years	$775,000	$ 13,000	$ 775,000	$ —
Customer Relationships	18-20 Years	7,922,000	423,000	3,721,000	4,201,000
TPA Licenses	15 Years	204,000	14,000	118,000	86,000
Total		$8,901,000	$ 450,000	$ 4,614,000	$ 4,287,000

Other intangible assets consisted of the following at September 30, 2016:

Item	Life	Cost	Six Months Ended September 30, 2016 Amortization Expense	Accumulated Amortization at September 30, 2016	Cost, Net of Accumulated Amortization at September 30, 2016

Covenants Not to Compete	5 Years	$775,000	$ —	$ 775,000	$ —
Customer Relationships	18-20 Years	7,922,000	211,000	3,933,000	3,989,000
TPA Licenses	15 Years	204,000	7,000	124,000	80,000
Total		$8,901,000	$ 218,000	$ 4,832,000	$ 4,069,000

Note G — Line of Credit

In September 2016, the Company renewed a line of credit agreement. The line is with a financial institution to provide a revolving credit facility with borrowing capacity of up to $10 million. Borrowings under this agreement, as amended, 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 1.0% 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 1.25:1 and have positive net income. The Company is in compliance with all the covenants. There were no outstanding revolving loans as of September 30, 2016, but letters of credit in the aggregate amount of $4.5 million have been issued separate from the line of credit and therefore do not reduce the amount of borrowings available under the revolving credit facility. The renewed credit agreement expires in September 2017.

Note H — Contingencies and Legal Proceedings

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

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

Note I — Accounts and Taxes Payable and Accrued Liabilities

Accounts payable, income taxes payable and accrued liabilities consisted of the following at March 31, 2016 and September 30, 2016:

	March 31, 2016	September 30, 2016
Accounts payable	$11,191,000	$14,130,000
Income taxes payable and uncertain tax positions	2,042,000	2,042,000
Total accounts and taxes payable	$13,233,000	$16,172,000

	March 31, 2016	September 30, 2016
Payroll, payroll taxes and employee benefits	$18,003,000	$15,827,000
Customer deposits	25,649,000	31,189,000
Accrued professional service fees	4,692,000	4,895,000
Self-insurance accruals	3,095,000	2,845,000
Deferred revenue	7,821,000	8,623,000
Accrued rent	4,907,000	4,598,000
Other	3,015,000	2,462,000
Total accrued liabilities	$67,182,000	$70,439,000

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," "predicts," "believes," "seeks," "estimates," "potential," "continue," "strive," "ongoing," "may," "will," "would," "cou variations of these words and similar expressions, are intended to 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, except as required by law. 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 a decreasing number of national claims due to decreasing number of injured workers; cost of capital and capital requirements; existing and possible litigation and legal liability in the course of operations and the Company's ability to resolve such litigation; 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, including but not limited to legislative and administrative law and rule implementation or change; and dependence on key personnel.

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 claims. The Company's services are provided to insurance companies, third party administrators ("TPA's"), governmental entities, and self-administered employers to assist them in managing the medical costs and monitoring the quality of care associated with healthcare claims. There is a decrease in the occupational injury and illness incidence rates as released from the United States Department of Labor in October 2016. This is a continuance of a long term trend of a decrease in the injury rates in the United States.

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 group health policies. The network solutions offered by the Company include automated medical fee auditing, preferred provider services, retrospective utilization review, independent medical examinations, and inpatient bill review. Network solutions services also includes revenue from the Company's directed care network (CareIQ), including imaging and physical therapy.

Patient Management Services

In addition to its network solutions services, the Company also operates as a TPA offering 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. Patient management services include the processing of claims for self-insured payors to property and casualty insurance.

Seasonality

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.

Organizational Structure

The Company’s management is structured geographically with regional vice-presidents who report to the Chief Executive Officer 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

The Company operates 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. FASB ASC 280-10 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 FASB ASC 280-10, 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, 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. The Company believes each of its regions meet these criteria as each provides similar services and products to similar customers using similar methods of productions and similar methods to distribute the services and products.

Summary of Quarterly Results

The Company generated revenues of $128.2 million for the quarter ended September 30, 2016, an increase of $3.8 million, or 3.0%, compared to revenues of $124.5 million for the quarter ended September 30, 2015. This increase was due to an increase in patient management services, which was due to an increase in TPA services offset by a decrease in case management services.

Cost of revenues increased by $4.5 million, from $97.8 million in the September 30, 2015 quarter to $102.3 million in the September 30, 2016 quarter, an increase of 4.6%. The increase in cost of revenues was due to an increase in revenues. Additionally, the increase in cost of revenues was primarily due to an increase in salaries, directed network costs, and temporary help expenses.

General and administrative expense increased by $1.4 million, from $13.2 million in the September 30, 2015 quarter to $14.6 million in the September 30, 2016 quarter, an increase of 10.9%. This increase was primarily due to an increase in spending in legal, information systems, and marketing expenses.

Income tax expense decreased by $0.9 million, or 17.1%, from $5.2 million, in the September 30, 2015 quarter to $4.3 million in the September 30, 2016 quarter. The decrease in income tax expense was primarily due to a decrease in pretax income from the prior year.

Weighted diluted shares decreased from 20.1 million shares in the September 30, 2015 quarter to 19.7 million shares in the September 30, 2016 quarter, a decrease of 330,000 shares, or 1.6%. This decrease was primarily due to the repurchase of 435,823 shares of common stock in the twelve months ended September 30, 2016 under our stock repurchase program.

Diluted earnings per share decreased from $0.41 in the September 30, 2015 quarter to $0.35 in the September 30, 2016 quarter, a decrease of $0.06 per share, or 14.5%. The decrease in diluted earnings per share was primarily due to

a decrease in net income.

Results of Operations for the three months ended September 30, 2015 and 2016

The Company derives its revenues from providing patient management and network solutions services to payers of workers' compensation benefits, auto insurance claims, and health insurance benefits. Patient management services include claims management and all services sold to claims management customers, case management, 24/7 nurse triage, utilization management, vocational rehabilitation, and life care planning. Network solutions services include medical bill review, PPO management, facility claim review, provider reimbursement, professional review, pharmacy services, directed care services, Medicare solutions, and clearinghouse services. The percentages of total revenues attributable to patient management and network solutions services for the quarters ended September 30, 2015 and September 30, 2016 are as follows:

	September 30, 2015		September 30, 2016	
Patient management services	54.7	%	56.1	%
Network solutions services	45.3	%	43.9	%

The following table sets forth, for the periods indicated, the dollar amounts, dollar and percent changes, share changes, and the percentage of revenues represented by certain items reflected in the Company's consolidated income statements for the three months ended September 30, 2015 and September 30, 2016. The Company's past operating results are not necessarily indicative of future operating results.

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2016		Change	Percentage Change	
Revenue	$124,460,000		$128,219,000		$3,759,000	3.0	%
Cost of revenues	97,776,000		102,307,000		4,531,000	4.6	%
Gross profit	26,684,000		25,912,000		(772,000)	(2.9	%)
Gross profit as percentage of revenue	21.4	%	20.2	%			
General and administrative	13,209,000		14,644,000		1,435,000	10.9	%
General and administrative as percentage of revenue	10.6	%	11.4	%			
Income before income tax provision	13,475,000		11,268,000		(2,207,000)	(16.4	%)
Income before income tax provision as percentage of revenue	10.8	%	8.8	%			
Income tax provision	5,208,000		4,316,000		(892,000)	(17.1	%)
Net income	$8,267,000		$6,952,000		$(1,315,000)	(15.9	%)
Weighted Shares							
Basic	19,902,000		19,581,000		(321,000)	(1.6	%)
Diluted	20,063,000		19,733,000		(330,000)	(1.6	%)
Earnings Per Share							
Basic	$0.42		$0.36		$(0.06)	(14.3	%)
Diluted	$0.41		$0.35		$(0.06)	(14.6	%)

Revenues

Change in revenue from the quarter ended September 30, 2015 to the quarter ended September 30, 2016

Revenues increased from $124.5 million for the three months ended September 30, 2015 to $128.2 million for the three months ended September 30, 2016, an increase of $3.8 million, or 3.0%. The increase in revenues was due to an increase in patient management services, which increased by 5.6%, from $68.1 million to $71.9 million. The increase in patient management services was due to an increase in TPA services partially offset by a decrease in case management services.

Cost of Revenues

The Company's cost of revenues consists of direct expenses, costs directly attributable to the generation of revenue, and field indirect costs which are incurred in the field to support the operations in the field offices which generate the revenue. Direct costs are primarily case manager salaries, bill review analysts, related payroll taxes and fringe benefits, costs for independent medical examination (IME), prescription drugs, 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 bonuses, 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 expenses. Approximately 32% of the costs incurred in the field are field indirect costs which support both the patient management services and network solutions operations of the Company’s field operations.

Change in cost of revenues from the quarter ended September 30, 2015 to the quarter ended September 30, 2016

Cost of revenues increased from $97.8 million in the three months ended September 30, 2015 to $102.3 million in the three months ended September 30, 2016, an increase of $4.5 million or 4.6%. The increase in cost of revenues was primarily due to revenue increasing in lower margin TPA services and a decrease in case management margins. Additionally, there was an increase in salaries, directed network costs, and temporary help expenses.

General and Administrative Expense

For the quarter ended September 30, 2016, general and administrative expense consisted of approximately 56% of corporate systems costs, which include corporate systems support, implementation and training, rules engine development, national information technology (IT) strategy and planning, 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 expense consisted of national marketing, national sales support, corporate legal, corporate insurance, human resources, accounting, product management, new business development, and other general corporate matters.

Change in general and administrative expense from the quarter ended September 30, 2015 to the quarter ended September 30, 2016

General and administrative expense increased from $13.2 million in the quarter ended September 30, 2015 to $14.6 million in the quarter ended September 30, 2016, an increase of $1.4 million, or 10.9%. Approximately half of this increase was primarily due to an increase in legal costs related to mediation and employment litigations. The increase in IT expenses was due to software depreciation.

Income Tax Provision

Change in income tax expense from the quarter ended September 30, 2015 to the quarter ended September 30, 2016

Income tax expense decreased by $0.9 million, or 17.1%, from $5.2 million for the quarter ended September 30, 2015 to $4.3 million for the quarter ended September 30, 2016 due to the decrease in pretax income. The income tax expense as a percentage of income before income taxes, also known as the effective tax rate, was 38.6% for the quarter ended September 30, 2015 and 38.3% for the quarter ended September 30, 2016.

Results of Operations for the six months ended September 30, 2015 and the six months ended September 30, 2016

The following table sets forth, for the periods indicated, the dollar amounts, dollar and percent changes, share changes, and the percentage of revenues represented by certain items reflected in the Company's consolidated income statements for the six months ended September 30, 2015 and September 30, 2016. The Company's past operating results are not necessarily indicative of future operating results.

	Six Months Ended September 30, 2015		Six Months Ended September 30, 2016		Change	Percentage Change	
Revenue	$251,399,000		$256,678,000		$5,279,000	2.1	%
Cost of revenues	198,532,000		205,184,000		6,652,000	3.4	%
Gross profit	52,867,000		51,494,000		(1,373,000)	(2.6	%)
Gross profit as percentage of revenue	21.0	%	20.1	%			
General and administrative	28,171,000		28,105,000		(66,000)	(0.2	%)
General and administrative as percentage of revenue	11.2	%	10.9	%			
Income before income tax provision	24,696,000		23,389,000		(1,307,000)	(5.3	%)
Income before income tax provision as percentage of	9.8	%	9.1	%			

revenue				
Income tax provision	9,529,000	8,946,000	(583,000)	(6.1%)
Net income	$15,167,000	$14,443,000	$(724,000)	(4.8%)
Weighted Shares				
Basic	20,026,000	19,577,000	(449,000)	(2.2%)
Diluted	20,199,000	19,743,000	(456,000)	(2.3%)
Earnings Per Share				
Basic	$0.76	$0.74	$(0.02)	(2.6%)
Diluted	$0.75	$0.73	$(0.02)	(2.7%)

Revenues

Change in revenue from the six months ended September 30, 2015 to the six months ended September 30, 2016

Revenues increased from $251.4 million for the six months ended September 30, 2015 to $256.7 million for the six months ended September 30, 2016, an increase of $5.3 million, or 2.1%. The increase in revenues was due to an increase in patient management services, which increased by 2.8%, from $139.3 million to $143.3 million, along with a lesser increase in network solutions, which increased by 1.2%, from $112.1 million to $113.4 million. Within patient management services, most of the increase was related to TPA services, which was offset by a decrease in case management services.

Cost of Revenues

Change in cost of revenues from the six months ended September 30, 2015 to the six months ended September 30, 2016

Cost of revenues increased from $198.5 million in the six months ended September 30, 2015 to $205.2 million in the six months ended September 30, 2016, an increase of $6.7 million or 3.4%. The increase in cost of revenues was primarily due to revenue increasing in lower margin TPA services, a decrease in case management margins, which was slightly offset by an increase in higher margin network solutions revenue. Additionally, there was an increase in salaries, directed network costs, and temporary help expenses.

General and Administrative Expense

Change in general and administrative expense from the six months ended September 30, 2015 to the six months ended September 30, 2016

General and administrative expense decreased from $28.2 million in the six months ended September 30, 2015 to $28.1 million in the six months ended September 30, 2016, a decrease of $0.1 million, or 0.2%. This decrease was primarily due to a decrease in IT costs.

Income Tax Provision

Change in income tax expense from the six months ended September 30, 2015 to the six months ended September 30, 2016

Income tax expense decreased by $0.6 million, or 6.1%, from $9.5 million for the six months ended September 30, 2015 to $8.9 million for the six months ended September 30, 2016 due to the decrease in pretax income. The income tax expense as a percentage of income before income taxes, also known as the effective tax rate, was 38.6% for the six months ended September 30, 2015 and 38.2% for the six months ended September 30, 2016.

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, proceeds from stock option exercises. Working capital increased $9.4 million, from $42.7 million as of March 31, 2016 to $52.1 million as of September 30, 2016. Cash and cash equivalents increased from $32.8 million as of March 31, 2016 to $40.9 million as of September 30, 2016, an increase of $8.1 million. This is primarily due to the Company’s decision to reduce its stock repurchase program activity.

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

As of September 30, 2016, the Company had $40.9 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 September 2016, the Company renewed a line of credit agreement. The line is with a financial institution to provide a revolving credit facility with borrowing capacity of up to $10 million. Borrowings under this agreement, as amended, 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 1.0% 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 1.25:1 and have positive net income. The Company is in compliance with

all the covenants. There were no outstanding revolving loans as of September 30, 2016, but letters of credit in the aggregate amount of $4.5 million have been issued separate from the line of credit and therefore do not reduce the amount of borrowings available under the revolving credit facility. The renewed credit agreement expires in September 2017.

The Company believes that the cash balance at September 30, 2016, 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

Six months ended September 30, 2015 compared to six months ended September 30, 2016

Net cash provided by operating activities decreased from $24.6 million in the six months ended September 30, 2015 to $20.5 million in the six months ended September 30, 2016, a decrease of $4.0 million. The decrease in cash flow from operating activities was primarily due to a change in prepaid taxes and expenses.

Investing Activities

Six months ended September 30, 2015 compared to six months ended September 30, 2016

Net cash flow used in investing activities was $8.6 million in the six months ended September 30, 2015 and $11.1 million in the six months ended September 30, 2016. Capital purchases were $8.0 million for the six months ended September 30, 2015 and $10.8 million for the six months ended September 30, 2016. This increase was due to the renewal of software licenses.

Financing Activities

Six months ended September 30, 2015 compared to six months ended September 30, 2016

Net cash flow used in financing activities was $16.6 million for the six months ended September 30, 2015 and $1.4 million for the six months ended September 30, 2016, a decrease of $15.2 million. The change is primarily due to the Company's decision to reduce its stock repurchase program activity.

Contractual Obligations

The following table summarizes the Company's contractual obligations outstanding as of September 30, 2016:

	Payments Due by Period				
	Total	Within One Year	Between One and Three Years	Between Three and Five Years	More than Five Years
Operating leases	$49,846,000	$13,013,000	$ 18,698,000	$ 11,829,000	$6,306,000
Uncertain tax positions	$2,206,000	$2,206,000	—	—	—
Software licenses	$3,492,000	$1,746,000	1,746,000	—	—
Total	$55,544,000	$16,965,000	$ 20,444,000	$ 11,829,000	$6,306,000

Operating leases are rents paid for the Company's physical locations.

Litigation

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

Inflation

The Company is 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.

Off-Balance Sheet Arrangements

The Company is not a party to off-balance sheet arrangements as defined by the rules of the SEC. 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 material liabilities have been recorded for these obligations on the Company's balance sheets for any of the periods presented.

Critical Accounting Policies

The SEC defines 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. The Company's significant accounting policies are more fully 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) allowance for uncollectible accounts, 3) goodwill and long-lived assets, 4) accrual for self-insured costs, 5) accounting for income taxes, 6) legal and other contingencies, 7) share-based compensation, and 8) software development costs.

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 Accounting Standard Codification ("ASC") 605-25.

The multiple-deliverable arrangements consist of bundled managed care which included various units of accounting such as network solutions, and patient management which includes claims administration. Such elements are considered separate units of accounting as each element has value to the customer on a stand-alone basis. The selling price for each unit of accounting is determined using the contract price and management estimates. When the Company's customers purchase several products, the pricing of the products sold is generally the same as if the products were sold on an individual basis. Revenue is recognized as the work is performed in accordance with the Company's customer contracts. Based upon the nature of the Company's products, bundled managed care elements are generally delivered in the same accounting period. The Company recognizes revenue for patient management claims administration services over the life of the customer contract. The Company estimates, based upon prior experience in managing claims, the deferral amount from when the claim is received to when the customer contract expires.

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.

The Company must make significant judgments and estimates in determining contractual and bad debt allowances in any accounting period. One significant uncertainty inherent in the Company's analysis is whether its past experience will be indicative of future periods. Although the Company considers future projections when estimating contractual and bad debt allowances, the Company ultimately makes its decisions based on the best information available to it at that time. Adverse changes in general economic conditions or trends in reimbursement amounts for the Company's services could affect the Company's contractual and bad

debt allowance estimates, collection of accounts receivable, cash flows, and results of operations. No one customer accounted for 10% or more of accounts receivable at March 31, 2016 or September 30, 2016.

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 ASC 350-10 through ASC 350-30, "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 amortizable intangible assets and long-lived assets annually 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 regional 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 management's evaluations, no indicators of impairment of its goodwill, intangible assets or other long-lived assets existed at September 30, 2016. 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 accrues for the group medical costs and workers' compensation costs of its employees based on claims filed and an estimate of claims incurred but not reported as of each balance sheet date. The Company purchases stop loss insurance for large claims. The Company determines its estimated self-insurance reserves based upon historical trends along with outstanding claims information provided by its claims paying agents. However, it is possible that recorded accruals may not be adequate to cover the future payment of claims. Adjustments, if any, to estimated accruals resulting from ultimate claim payments will be reflected in earnings during the periods in which such adjustments are determined. The Company's self-insured liabilities contain uncertainties since management is required to make assumptions and apply judgment to estimate the ultimate cost to settle reported claims and claims incurred but not reported at the balance sheet date.

The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate its self-insured liabilities. However, if actual results are not consistent with these estimates or assumptions, the Company may be exposed to losses or gains that could be material.

Accounting for Income Taxes: The Company records a tax provision for the anticipated tax consequences of the reported results of operations. The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carry-forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance, if necessary, to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with future reversals of existing taxable temporary differences, will be sufficient to fully recover the deferred tax assets. In the event that the Company determines all or part of the net deferred tax assets are not realizable in the future, the Company will make an adjustment to the valuation allowance

that would be charged to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on the Company's financial condition and operating results. The significant assumptions and estimates described above are important contributors to our ultimate effective tax rate in each year.

Legal and Other Contingencies: As discussed in Part II, Item 1 of this report under the heading "Legal Proceedings" and in Note H, "Contingencies and Legal Proceedings" in the Notes to Consolidated Financial Statements, the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies. However, the outcome of legal proceedings and claims brought against the Company are subject to significant uncertainty.

Share-Based Compensation: The Company accounts for share-based compensation in accordance with the provisions of ASC Topic 718 “Compensation – Stock Compensation”. Under ASC 718, 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). Share-based compensation expense is recognized based on awards ultimately expected to vest; therefore, it has been reduced for estimated forfeitures. ASC Topic 718 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 granted stock options. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

The Company does not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions used to determine stock-based compensation expense. However, if actual results are not consistent with these estimates or assumptions, the Company may be exposed to changes in stock-based compensation expense that could be material.

Software Development Costs: Development costs incurred in the research and development of new software products and enhancements to existing software products for internal use are expensed as incurred until technological feasibility has been established. After technological feasibility is established, any additional external and internal software development costs are capitalized and amortized on a straight-line basis over the estimated economic life of the related product, which is typically five years. The Company performs an annual review of the estimated economic life and the recoverability of such capitalized software costs. If a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are written off.

Recent Accounting Standards Update

On May 28, 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606, Revenue from Contracts with Customers. The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one-year delay of the effective date of this new revenue recognition standard. The guidance will now be effective for our fiscal year beginning April 1, 2018. We are currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

On November 20, 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 alters the presentation of deferred tax items on a classified balance sheet requiring companies to unify previously separated current and noncurrent items and present them as a single noncurrent amount. We have elected to early adopt this standard as of March 31, 2016 and have retrospectively applied the amendments to all periods presented.

In January 2016, the FASB issued ASU 2016-01 regarding Subtopic 825-10, Financials Instruments — Overall: Recognition and Measurements of Financial Assets and Financial Liabilities. The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. It requires that most equity

investments be measured at fair value, with subsequent changes in fair value recognized in net income. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. We are currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective April 1, 2019, with early adoption permitted. The standard is to be applied using a modified retrospective transition method. We are in the process of determining the effect on our consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows. For public companies, the new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016, with early adoption permitted. We are in the process of evaluating the impact of adoption of this guidance on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows, which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The new guidance is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2016, 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 September 30, 2016, and therefore, had no market risk related to debt.

Item 4 – Controls and Procedures

Evaluation of Disclosure 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 September 30, 2016, our disclosure controls and procedures were 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 SEC 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.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the three months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 – Legal Proceedings

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

consolidated 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 supersedes, the description of the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

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.

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 as 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 the position of stockholders and could adversely affect the market price of our common stock; and
- the 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.

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. There can be no assurance 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 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.

Our 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 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 sequential revenue fall below the expectations of investors or analysts, the price of our common stock could decline substantially. Fluctuations or declines in 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 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 are 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 period-to-period comparisons of our results of operations as an indication of our future performance.

The market price and trading volume of our common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

The market price of our common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. 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. There can be no assurance that the market price of our common stock will not fluctuate or decline significantly in the future.

We cannot assure our stockholders that our stock repurchase program will enhance long-term stockholder value and stock repurchases, if any, could increase the volatility of the price of our common stock and will diminish our cash reserves.

In 1996, our Board of Directors authorized a stock repurchase program and has periodically increased the number of shares authorized for repurchase under the repurchase program. In November 2015, the Company's Board of Directors approved a 1,000,000 share expansion to its existing stock repurchase plan, increasing the total number of shares approved for repurchase over the life of the program to 35,000,000 shares from the previous limit of 34,000,000 shares. There is no expiration date for the repurchase program. The timing and actual number of shares repurchased, if any, depend on a variety of factors including the timing of open trading windows, price, corporate and regulatory requirements, and other market conditions. The program may be suspended or discontinued at any time without prior notice. Repurchases pursuant to our stock repurchase program could affect our stock price and increase its volatility. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, repurchases

under our stock repurchase program will diminish our cash reserves, which could impact our ability to pursue possible future strategic opportunities and acquisitions and could result in lower overall returns on our cash balances. There can be no assurance that any further stock repurchases will enhance stockholder value as the market price of our common stock may decline below the levels at which we repurchased shares of stock. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness.

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

In some years, 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.

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

Within the past few years, the economy has performed below historical averages which leads to fewer workers on a national level and could lead to fewer work-related injuries. If declines in workers' compensation costs occur in many states and persist over the long-term, it would have a material 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 and self-administered employers. If these payors reduce the amount of work they outsource, our results of operations would be materially adversely affected.

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.

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.

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 Company's and our customers' proprietary information. Accidental or willful security breaches or other unauthorized access by third parties to our information systems or 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 due to 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. We may be unable to anticipate these techniques or to implement adequate preventative measures because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target.

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

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 a reasonable cost to protect us from liability, our business, financial condition or results of operations could be adversely affected.

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

We provide to insurers and other payors of healthcare costs managed care programs that utilize preferred provider organizations and computerized bill review programs. Healthcare 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 granting or denial of claims for payment of benefits or allegations that we engage in the practice of medicine or the delivery of medical services, there can be no assurance that plaintiffs will not make such claims in future litigation. There also can be no assurance 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.

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.

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.

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

We compete with other healthcare 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 healthcare providers. This shortage may require us to enhance wages to recruit and retain qualified nurses and other healthcare professionals. Our failure to recruit and retain qualified management, nurses and other healthcare professionals, or to control labor costs could have a material adverse effect on profitability.

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.

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 healthcare 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.

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.

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, President, and Chief Executive Officer, or the inability to attract qualified employees, could have a material unfavorable effect on our business and results of operations.

If we lose several customers in a short period, our results may be materially 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 for 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.

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

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 website operators for access to our website. 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.

We are sensitive to regional weather conditions that may adversely affect our operations.

Our operations are directly affected in the short term by the weather conditions in certain regions of operation. Therefore our business is sensitive to the weather conditions of these regions. Unusually inclement weather, including significant rain, snow, sleet, freezing rain or ice can temporarily affect our operations if clients are forced to close operational centers. Accordingly, our operating results may vary from quarter to quarter, depending on the impact of these weather conditions.

Natural and other disasters may adversely affect our business.

We may be vulnerable to damage from severe weather conditions or natural disasters, including hurricanes, fires, floods, earthquakes, power loss, communications failures and similar events, including the effects of war or acts of terrorism. If a disaster were to occur, our ability to operate our business could be seriously or completely impaired or destroyed. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions.

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 in open-market transactions for the quarter ended September 30, 2016 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
July 1 to July 31, 2016	6,651	$ 44.18	6,651	1,068,930
August 1 to August 31, 2016	26,837	40.97	26,837	1,042,093
September 1 to September 30, 2016	30,106	38.47	30,106	1,011,987
Total	63,594	$ 40.12	63,594	1,011,987

In 1996, the Company's Board of Directors authorized a stock repurchase program for up to 900,000 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. In November 2015, the Company's Board of Directors approved a 1,000,000 share expansion to its existing stock repurchase plan, increasing the total number of shares approved for repurchase over the life of the program to 35,000,000 shares from the previous limit of 34,000,000 shares. There is no expiration date for the repurchase program. As of September 30, 2016, the Company had repurchased 33,988,013 shares of its common stock over the life of the program.

Item 3 – Defaults Upon Senior Securities – None.

Item 4 – Mine Safety Disclosures – Not applicable.

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 Current Report on Form 8-K filed with the SEC on August 10, 2011 (File No. 000-19291).

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 with the SEC on August 14, 2006 (File No. 000-19291).

3.3 Certification 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 Current Report on Form 8-K filed with the SEC on November 24, 2008 (File No. 000-19291).

10.1 Seventh Amendment to Credit Agreement dated September 1, 2016 by and between CorVel Corporation and Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 2, 2016 (File No. 000-19291).

10.2 Revolving Line of Credit Note dated September 1, 2016 by CorVel Corporation in favor of Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on September 2, 2016 (File No. 000-19291).

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).

101.0 The following materials from the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2016 and March 31, 2016; (ii) Consolidated Statements of Income for the three and six months ended September 30, 2015 and 2016; (iii) Consolidated Statements of Cash Flows for the six months ended September 30, 2015 and 2016; and (iv) Notes to Consolidated Financial Statements.

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: /s/ V. Gordon Clemons, Sr.
V. Gordon Clemons, Sr.,
Chairman of the Board,

President and Chief Executive Officer

By: /s/ Richard J. Schweppe
Richard J. Schweppe,
Chief Financial Officer

November 4, 2016

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