CORVEL CORP
Form 10-Q
November 07, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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 x 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 x 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	x
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 x

The number of shares outstanding of the registrant s Common Stock, $0.0001 par value per share, as of October 30, 2012 was 11,211,289.

Table of Contents

CORVEL CORPORATION

FORM 10-Q

TABLE OF CONTENTS

Table of Contents

Part I - Financial Information

Item 1. Financial Statements

CORVEL CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31, 2012	September 30, 2012 (Unaudited)
Assets		
Current Assets		
Cash and cash equivalents (Note A)	$ 6,597,000	$ 20,014,000
Customer deposits	5,816,000	7,311,000
Accounts receivable, net	49,334,000	48,747,000
Prepaid taxes and expenses	12,263,000	7,811,000
Deferred income taxes	7,237,000	7,389,000
Total current assets	81,247,000	91,272,000
Property and equipment, net	47,364,000	45,611,000
Goodwill	36,814,000	36,814,000
Other intangibles, net (Note F)	6,146,000	5,898,000
Other assets	311,000	259,000
TOTAL ASSETS	$ 171,882,000	$ 179,854,000
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts and taxes payable	$ 12,773,000	$ 11,400,000
Accrued liabilities	31,989,000	31,829,000
Total current liabilities	44,762,000	43,229,000
Deferred income taxes	16,738,000	16,738,000
Commitments and contingencies (Note G and H)		
Stockholders Equity		
Common stock, $.0001 par value: 120,000,000 shares authorized at March 31, 2012 and September 30, 2012; 26,261,874 shares issued (11,308,773 shares outstanding, net of Treasury shares) and 26,350,824 shares issued (11,238,777 shares outstanding, net of Treasury shares) at March 31, 2012 and September 30, 2012, respectively	3,000	3,000
Paid-in capital	105,907,000	109,122,000
Treasury Stock (14,953,101 shares at March 31, 2012 and 15,112,047 shares at September 30, 2012)	(270,574,000)	(277,510,000)
Retained earnings	275,046,000	288,272,000
Total stockholders equity	110,382,000	119,887,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 171,882,000	$ 179,854,000

See accompanying notes to consolidated financial statements.

Table of Contents

CORVEL CORPORATION

CONSOLIDATED INCOME STATEMENTS   UNAUDITED

	Three Months Ended September 30, 2011	2012
REVENUES	$ 104,552,000	$ 105,458,000
Cost of revenues	78,940,000	82,622,000
Gross profit	25,612,000	22,836,000
General and administrative expenses	12,592,000	11,981,000
Income before income tax provision	13,020,000	10,855,000
Income tax provision	5,139,000	4,225,000
NET INCOME	$ 7,881,000	$ 6,630,000
Net income per common and common equivalent share		
Basic	$ 0.68	$ 0.59
Diluted	$ 0.68	$ 0.58
Weighted average common and common equivalent shares		
Basic	11,526,000	11,270,000
Diluted	11,672,000	11,376,000

See accompanying notes to consolidated financial statements.

Table of Contents

CORVEL CORPORATION

CONSOLIDATED INCOME STATEMENTS UNAUDITED

	Six Months Ended September 30, 2011	2012
REVENUES	$ 206,860,000	$ 210,064,000
Cost of revenues	155,704,000	164,047,000
Gross profit	51,156,000	46,017,000
General and administrative expenses	24,886,000	24,155,000
Income before income tax provision	26,270,000	21,862,000
Income tax provision	10,191,000	8,636,000
NET INCOME	$ 16,079,000	$ 13,226,000
Net income per common and common equivalent share		
Basic	$ 1.39	$ 1.17
Diluted	$ 1.37	$ 1.16
Weighted average common and common equivalent shares		
Basic	11,572,000	11,292,000
Diluted	11,729,000	11,401,000

See accompanying notes to consolidated financial statements.

Table of Contents

CORVEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	Six Months Ended September 30, 2011	2012
Cash flows from Operating Activities		
NET INCOME	$ 16,079,000	$ 13,226,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,987,000	7,944,000
Loss on disposal of assets	116,000	390,000
Stock compensation expense	1,329,000	387,000
Write-off of uncollectible accounts	1,305,000	1,142,000
Deferred income tax	(461,000)	(152,000)
Changes in operating assets and liabilities		
Accounts receivable	(3,167,000)	(554,000)
Customer deposits	433,000	(1,495,000)
Prepaid taxes and expenses	(191,000)	4,669,000
Other assets		52,000
Accounts and taxes payable	3,366,000	(1,590,000)
Accrued liabilities	(9,923,000)	(160,000)
Net cash provided by operating activities	15,873,000	23,859,000
Cash Flows from Investing Activities		
Purchase of property and equipment	(11,658,000)	(6,334,000)
Net cash (used in) investing activities	(11,658,000)	(6,334,000)
Cash Flows from Financing Activities		
Purchase of treasury stock	(10,005,000)	(6,937,000)
Tax effect of stock option exercises	973,000	1,845,000
Exercise of common stock options	525,000	823,000
Exercise of employee stock purchase options	157,000	161,000
Net cash (used in) financing activities	(8,350,000)	(4,108,000)
Increase (decrease) in cash and cash equivalents	(4,135,000)	13,417,000
Cash and cash equivalents at beginning of period	12,269,000	6,597,000
Cash and cash equivalents at end of period	$ 8,134,000	$ 20,014,000
Supplemental Cash Flow Information:		
Income taxes paid	$ 7,288,000	$ 3,010,000
Purchase of software license under finance agreement	$ 861,000	$

See accompanying notes to consolidated financial statements.

Table of Contents

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

Note A Basis of Presentation and Summary of Significant Accounting Policies

The unaudited financial statements herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying interim financial statements have been prepared under the presumption that users of the interim financial information have either read or have access to the audited financial statements for the latest fiscal year ended March 31, 2012. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the March 31, 2012 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 September 30, 2012, the Company repurchased 30,628 shares for $1,355,000 for an average of $44.24 per share. These shares were repurchased under the Company s ongoing share repurchase program described in Note C.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and six months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2013. For further information, refer to the consolidated financial statements and footnotes for the fiscal year ended March 31, 2012 included in the Company s Annual Report on Form 10-K.

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

Use of Estimates: The preparation of financial statements in compliance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Actual results could differ from those estimates. Significant estimates include the values assigned to intangible assets, capitalized software development, the allowance for doubtful accounts, accrual for income taxes, purchase price allocation for acquisitions, shared-based payments related to performance based awards, loss contingencies, estimated claims for claims administration revenue recognition, estimates used in stock option valuations, and accrual 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. The carrying amounts of the Company s financial instruments approximate their fair values at March 31, 2012 and September 30, 2012.

Table of Contents

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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

Fair Value of Financial Instruments: The Company applies ASC 820, Fair Value Measurements and Disclosures 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, accounts receivable, accounts payable, etc.) are all Level 1 and approximate their fair values at March 31, 2012 and September 30, 2012. The Company has no Level 2 or Level 3 assets.

Goodwill: The Company accounts for its business combinations in accordance with the Financial Accounting Standards Board (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.

Table of Contents

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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

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

Table of Contents

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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

Recent Accounting Pronouncements: In September, 2011, the FASB issued ASU 2011-08, Intangibles Goodwill and Other (Topic 350), Testing Goodwill for Impairment. ASU 2011-08 simplifies how a company is required to test goodwill for impairment. Companies will now have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after considering the totality of events and circumstances an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, performing the two-step impairment test is unnecessary. The amendment is effective for the Company beginning January 1, 2012, with early adoption permitted. The Company adopted this guidance in the quarter ended December 31, 2011. The adoption of this guidance did not have a material impact on the financial statements.

Accounts Receivable: The majority of the Company s accounts receivable are due from companies in the property and casualty insurance industries, self-insured employers, and government entities. Accounts receivable are 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, 2012 or September 30, 2012. No one customer accounted for 10% or more of revenue during either of the three month periods ended September 30, 2011 or 2012.

Property and Equipment: Additions to property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets, which range from one to seven years. The Company accounts for internally developed software costs in accordance with FASB ASC 350-40, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, which allows for the capitalization of software developed for internal use. These costs are included in computer software in property and equipment and are amortized over a period of five years.

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

Income Taxes: The Company provides for income taxes 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 is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. In making an assessment regarding the probability of realizing a benefit from these deductible differences, management considers the Company s current and past performance, the market environment in which the Company operates, tax-planning strategies and the length of carry-forward periods for loss carry-forwards, if any. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that are more likely than not to be realized. Further, the Company provides for income tax issues not yet resolved with federal, state and local tax authorities. The balance of the unrecognized tax benefits as of March 31, 2012 and September 30, 2012 was $983,000 and $991,000, respectively.

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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

Earnings Per Share: Earnings per common share-basic is based on the weighted average number of common shares outstanding during the period. Earnings per common shares-diluted is based on the weighted average number of common shares and common share equivalents outstanding during the period. In calculating earnings per share, earnings are the same for the basic and diluted calculations. Weighted average shares outstanding decreased in the September 2012 quarter compared to the same quarter of the prior year primarily due to repurchase of shares under the Company s share repurchase program. See also Note D.

Note B Stock Based Compensation and Stock Options

Under the Company s Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) (the Plan) as in effect at September 30, 2012, options for up to 9,682,500 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 9.36% and 11.86% for the three months ended September 30, 2011 and 2012, 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, 2011 and 2012 using the Black-Scholes option-pricing model:

	Three Months Ended September 30,	
	2011	2012
Risk-free interest rate	1.13%	0.61%
Expected volatility	47%	47%
Expected dividend yield	0.00%	0.00%
Expected forfeiture rate	9.36%	11.86%
Expected weighted average life of option in years	4.7 years	4.5 years

Table of Contents

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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

All options granted in the six months ended September 30, 2011 and 2012 were granted at fair market value and are non-statutory stock options.

The table below shows the amounts recognized in the financial statements for stock compensation expense for time based options and performance based options during the three and six months ended September 30, 2011 and 2012, respectively.

	Three Months Ended	
	September 30, 2011	September 30, 2012
Cost of revenues	$ 125,000	$ 115,000
General and administrative	546,000	(26,000)
Total cost of stock-based compensation included in income before income tax provision	671,000	89,000
Amount of income tax benefit recognized	(262,000)	(35,000)
Amount charged against net income	$ 409,000	$ 54,000
Effect on diluted net income per share	$ (0.04)	$

	Six Months Ended	
	September 30, 2011	September 30, 2012
Cost of revenues	$ 250,000	$ 228,000
General and administrative	1,079,000	159,000
Total cost of stock-based compensation included in income before income tax provision	1,329,000	387,000
Amount of income tax benefit recognized	(520,000)	(150,000)
Amount charged against income	$ 809,000	$ 237,000
Effect on diluted income per share	$ (0.07)	$ (0.02)

Table of Contents

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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

Summarized information for all stock options for the three and six months ended September 30, 2011 and 2012 follows:

	Three Months Ended September 30, 2011		Three Months Ended September 30, 2012	
	Shares	Average Price	Shares	Average Price
Options outstanding, beginning	797,377	$ 29.87	651,903	$ 34.59
Options granted	29,550	43.73	20,550	44.14
Options exercised	(26,429)	23.51	(36,106)	24.55
Options cancelled	(1,625)	25.31	(4,082)	45.05
Options outstanding, ending	798,873	$ 30.62	632,265	$ 35.41

	Six Months Ended September 30, 2011		Six Months Ended September 30, 2012	
	Shares	Average Price	Shares	Average Price
Options outstanding, beginning	813,622	$ 29.26	751,323	$ 34.19
Options granted	45,225	45.75	31,700	43.06
Options exercised	(54,973)	23.17	(101,679)	25.13
Options cancelled	(5,001)	28.20	(49,079)	43.08
Options outstanding, ending	798,873	$ 30.62	632,265	$ 35.41

Table of Contents

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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

The following table summarizes the status of stock options outstanding and exercisable at September 30, 2012:

Range of Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Life	Outstanding Options Weighted Average Exercise Price	Exercisable Options Number of Exercisable Options	Exercisable Options Weighted Average Exercise Price
$ 15.55 to $ 25.42	159,872	2.39	$ 20.60	138,553	$ 20.32
$ 25.43 to $ 35.20	156,145	2.36	$ 29.55	110,754	$ 29.47
$ 35.21 to $ 46.00	133,177	5.09	$ 40.97	45,955	$ 39.58
$ 46.01 to $ 52.76	183,071	3.30	$ 49.28	22,341	$ 46.85
Total	632,265	3.22	$ 35.40	317,603	$ 28.16

A summary of the status for all outstanding options at September 30, 2012, and changes during the three months then ended, is presented in the table below:

	Number of Options	Weighted Average Exercise Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value as of September 30, 2012
Options outstanding at July 1, 2012	651,903	$ 34.59		
Granted	20,550	44.14		
Exercised	(36,106)	24.55		
Cancelled forfeited	(904)	44.40		
Cancelled expired	(3,178)	44.86		
Ending outstanding	632,265	$ 35.40	3.22	$ 6,744,814
Ending vested and expected to vest	568,347	$ 34.09	3.14	$ 6,638,441
Ending exercisable at September 30, 2012	317,603	$ 28.16	2.71	$ 5,318,951

The weighted-average grant-date fair value of options granted during the three months ended September 30, 2011 and 2012, was $17.59 and $17.34, 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 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 targets are determined to be achieved which allow the options to vest. The Company recognized $334,000 and $0 of stock compensation expense for the three months ended September 30, 2011 and September 30, 2012, respectively, for performance based stock options.

Table of Contents

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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 February 2012, the Board approved a 1,000,000 share expansion of the repurchase program to 16,000,000 shares over the life of the share repurchase program. Since the commencement of the share repurchase program, the Company has spent $278 million to repurchase 15,112,047 shares of its common stock, equal to 57% of the outstanding common stock had there been no repurchases. The average price of these repurchases is $18.36 per share. These purchases have been funded primarily from the net earnings of the Company, along with the proceeds from the exercise of common stock options. During the three months and six months ended September 30, 2012, the Company repurchased 72,274 shares for $3.3 million and 158,946 shares for $7 million, respectively. The Company had 11,238,777 shares of common stock outstanding as of September 30, 2012, net of the 15,112,047 shares in treasury. Subsequent to the end of the quarter, through October 28, 2012, the Company repurchased 30,628 shares for $1,355,000 for an average of $44.24 per share.

Table of Contents

Note D Weighted Average Shares and Net Income Per Share

Weighted average basic common shares decreased from 11,526,000 for the quarter ended September 30, 2011 to 11,270,000 for the quarter ended September 30, 2012. Weighted average diluted common and common equivalent shares decreased from 11,672,000 for the quarter ended September 30, 2011 to 11,376,000 for the quarter ended September 30, 2012. 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, 2011 and 2012, are as follows:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2012
Net Income	$ 7,881,000	$ 6,630,000
Basic:		
Weighted average common shares outstanding	11,526,000	11,270,000
Net Income per share	$ 0.68	$ 0.59
Diluted:		
Weighted average common shares outstanding	11,526,000	11,270,000
Treasury stock impact of stock options	146,000	106,000
Total common and common equivalent shares	11,672,000	11,376,000
Net Income per share	$ 0.68	$ 0.58

	Six Months Ended September 30, 2011	Six Months Ended September 30, 2012
Net Income	$ 16,079,000	$ 13,226,000
Basic:		
Weighted average common shares outstanding	11,572,000	11,292,000
Net Income per share	$ 1.39	$ 1.17
Diluted:		
Weighted average common shares outstanding	11,572,000	11,292,000
Treasury stock impact of stock options	157,000	109,000
Total common and common equivalent shares	11,729,000	11,401,000
Net Income per share	$ 1.37	$ 1.16

Table of Contents

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

Note E Shareholder Rights Plan

During fiscal 1997, the Company s Board of Directors approved the adoption of a Shareholder Rights Plan. The Shareholder Rights Plan provides for a dividend distribution to CorVel stockholders of one preferred stock purchase right for each outstanding share of CorVel s common stock under certain circumstances. In November 2008, the Company s Board of Directors approved an amendment to the Shareholder Rights Plan to extend the expiration date of the rights to February 10, 2022.

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

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

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

Note F Other Intangible Assets

Other intangible assets consist of the following at September 30, 2012:

Item	Six Months Ended September 30, 2012	Accumulated Amortization at	Cost, Net of Accumulated Amortization at