REESE CORP
Form 10KSB
September 02, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

[X]

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

For the fiscal year ended September 30, 2003

[ ]

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

For the transition period from _________ to ____________

Commission File No. 333-113296

REESE CORP.

(Exact name of Registrant as specified in its charter)

NEVADA	**98-0409895**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Suite 1219, 1450 Chestnut St.

Vancouver, BC Canada **V6J 3K3**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(604) 221-4988**

Securities registered pursuant to Section 12(b) of the Act: **NONE**

Securities registered pursuant to Section 12 (g) of the Act: **25,000,000 shares of common stock**

Check whether the issuer (l) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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. [X] Yes [ ] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Revenues for the year ended June 30, 2005 were $462

The aggregate market value of the voting stock held by non-affiliates computed by reference to the last reported sale price of such stock as of June 30, 2005 is $0.20

The number of shares of the issuer's Common Stock outstanding as of June 30, 2005 is **13,297,650.**

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [X]

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SIGNATURES

PART I

This report contains forward-looking statements within the meaning of Section 27A of the *Securities Act of 1933* and Section 21E of the *Securities Exchange Act of 1934*. Actual results could differ materially from those projected in the forward-looking statements if assumptions upon which the forward-looking statements are based do not turn out to be true. The assumptions upon which the forward-looking statements are based include without limitation:

- We will obtain funding sufficient to execute its business plan.
- We will be successful competing in a competitive market.
- Our key personnel will remain with the Company.
- We will be able to hire skilled personnel for key positions as needed and within our budgetary constraints.

ITEM 1. Description of Business

We were incorporated on November 20, 2002 under the laws of the state of Nevada. Our principal offices are located at Suite 1219, 1450 Chestnut Street, Vancouver, BC V6J 3K3. Our phone number is 604-221-4988.

Through our subsidiary, Oasis Wireless ("*Oasis*"), we provide secure high speed wireless internet access to the public via public hot spots. A hot spot is a location that is typically positioned in an area of high public traffic such as a downtown core; train, bus, ferry, or subway locations; hotel lobbies; coffee shops and similar venues. A subscriber can access the internet with his or her wireless device when located at one of these hot spots. This is a prepaid service and the subscriber has a choice of paying with a credit card online through a secure server or with a pre-paid card with an access code. These cards are made available to the hot spot venue for sale to their customers. Oasis owns a proprietary access solution that consists of an access point which is located at a venue and software hosted at our server which handles billing, security, authentication and merchant account services. The hardware device communicates with the end users' laptop or PDA with a wireless protocol commonly known as Wi-Fi. The end users' wireless device must be equipped with the appropriate Wi-Fi network interface cards. This is a card that fits in a slot in a laptop or other device and allows the user to actually communicate with our server and use the service.

Operations and Twelve month Plan

Oasis installed working hot spots in a cafe called *Pane from Heaven* and at the Jericho Sailing Club, both in Vancouver. British Columbia. Later the company installed a hot spot at West 1st Avenue and Cypress Street in Vancouver, British Columbia in a private residence. Two of these hot spots have been dismantled for lack of adequate revenue generation. Oasis recently installed a new hot spot in another private residence near West 8th Avenue and Burrard Street, which sits on a hill over looking one of the most densely populated areas in Vancouver, British Columbia. Our negotiations with the Blenz Coffee chain in British Columbia have been terminated.

Financing

We have been meeting our financial needs more recently through loans from our President, Mr. Machula. To June 30, 2005 he has lent to us $67, 760 on a unsecured interest free no terms basis. While there is no guarantee that this will continue, Mr. Machula has continued to lend money to us since June 30, 2005. It is hoped that should we gain a public listing we will be able to more easily access public financing, although there is no assurance of this possibility.

We are currently in the development stage and have not yet generated any significant revenues. At June 30, 2005 our accumulated deficit is $214,353. Our cash was $6,179. Our total revenue for the year was $462.

Hardware and Software

We do not have any planned expenditures in the area of hardware over the next twelve months as some of the servers that have been dismantled will be redeployed for other hot spot locations once we are able to secure new locations.

Current and New Employment

When our budget allows, we anticipate we will hire a marketing person to assist us to gain new customers. We have identified a person for this job, but will not initiate the position until we erect two more hot spot locations. This marketing person will earn $2,800 per month. Mr. Machula has not recently collected any salary and Mr. Lepage has been paid far less than the $36,000 per annum as originally agreed as a result of our lack of financing.

New Business and Marketing

Mr. Lepage has recently made headway in opening a new hot spot for us and Oasis, but we are now trying to open new locations in the downtown core of Vancouver, British Columbia, where marketing dollars will then be better spent more efficiently.

Professional Fees

We expect that we will require approximately $20,000 to $25,000 over the next twelve months to satisfy our legal and accounting requirements.

Including miscellaneous expenses, we will require at least $285,000 over the next twelve months to satisfy our operating expenses. We will continue to pursue equity and debt financing.

We Carry No Insurance Policies.

We currently carry no policies of insurance to cover any type of risk to our business.

Reliance on Key Personnel.

Our success depends to a significant extent on the continued service of Robert Lapage. The loss or interruption of services from Robert Lepage for whatever reason, could have a material adverse effect on our busines. In the event of the loss of services of Mr. Lepage no assurances can be given that we will be able to obtain the services of adequate replacement personnel.

Operating Results Are Difficult to Predict.

We plan to run at a loss for at least 12 months. This means that we will rely on our continued fund raising efforts for an indefinite period of time.

ITEM 2. Description of Property

We maintain our principal office at Suite 1219, 1450 Chestnut St., Vancouver, British Columbia, Canada V6K 3K3.

ITEM 3. Legal Proceedings

We are not a party to any material legal proceedings and to our knowledge, no such proceedings are threatened or contemplated.

ITEM 4. Submission of Matters to a Vote of Security Holders.

There was no matter submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholders Matters

Market for Common stock

There is no market for our Common Stock. As of June 30, 2005, there were 13,297,650 shares of Common Stock issued and outstanding.

Recent Unregistered Sales of Securities

There have been no recent sales of unregistered securities.

Dividends

We presently plan to reinvest any future earnings in the business and, therefore, we are unlikely to declare any cash dividends in the foreseeable future. We have not declared or paid any dividends on our common stock and do not anticipate declaring any dividends in the foreseeable future.

ITEM 6. Management's Discussion and Analysis or Plan of Operation

Plan of Operation

We had cash on hand in the amount of $6,179 as of June 30, 2005. We will require additional financing to enable us to complete our twelve month plan. Our President, Boris Machula, has provided us with operating capital in the form of unsecured demand loans to meet our cash needs until we are self-sustaining or more additional capital is raised. As a result, there have been no substantial cash excesses. Mr. Machula has not made a firm commitment to continue financing and may discontinue being a source of funds at any time. We hope to raise money through sales of common stock to private investors and/or through, institutional avenues. Stock options may also be offered in the future, which, if exercised, could provide additional capital.

We do not know the exact specific financial requirements of the projects, products or ventures in which we may eventually participate, and therefore we do not know what our exact capital needs will be. In addition, we may incur substantial costs in connection with any research and development and/or negotiations for business opportunities, which may deplete our assets.

We expect to incur a net loss at the end of the fiscal year June 30, 2006. We cannot presently estimate when we may become profitable, if ever.

Results of Operations

Results of Operation for the Year Ended June 30, 2005 as compared to the Year Ended June 30, 2004

We incurred a loss of $83,763 for the fiscal year ending June 30, 2005 compared to a loss of $80,605 for the fiscal year ending June 30, 2004, which were largely similar figures.

We expect to continue to incur higher professional expenses in order to comply with our ongoing reporting obligations under the *Securities Exchange Act of 1934*. Professional fees were $27,687 for the fiscal year ended June 30, 2005 and were similar for the fiscal year ended June 30, 2004 at 26,103.

We earned $462 in revenues during the fiscal year June 30, 2005 and similarly had little revenues of $565 in 2004. Management believes that the lack of revenues resulted largely from the lack of an adequate marketing of our Wi-Fi services in the neighborhoods where we were installed.

Liquidity and Capital Resources

We had cash of $6,179 as of June 30, 2005, compared to a cash position of $4,126 at June 30, 2004. We expect to run at a loss for at least the next twelve months. We have no agreements for additional financing and cannot provide any assurance that additional funding will be available to finance our operations on acceptable terms in order to enable us to complete our plan of operations.

ITEM 7. Financial Statements

The information required by this item is set forth in Item 13 of this Report.

ITEM 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

We have had no changes in or disagreements with our accountants on accounting or financial disclosures.

ITEM 8A. CONTROLS AND PROCEDURES

(a)

Evaluation of disclosure controls and procedures

Our Chief Executive Officer and our Chief Financial Officer evaluated our disclosure controls and procedures (as defined in Rule 13a-14 (c) of the Exchange Act) as of a date within 90 days before the filing date of this annual report. He concluded that as of the evaluation date, our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

(b)

Changes in internal controls.

Subsequent to the date of their evaluation, there were no significant changes in our internal controls or in other factors that could significantly affect these controls. There were no significant deficiencies or material weaknesses in our internal controls so no corrective actions were taken.

PART III

ITEM 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

The following information sets forth the names of our officers and directors, their present positions, and some brief information about their background.

Name	Age	Position
Boris Machula	39	Director, President, Secretary and Treasurer

Boris Machula

Mr. Machula has a Business Management Diploma from Langara College in Vancouver, British Columbia. He has also spent time in the Microsoft Certified Systems Engineering program but did not finish the course. He has spent a significant amount of time building computer networks through the years as a hobby and generally understands many technologies well. Prior to becoming involved in our business. Mr. Machula earned his living as a private investor.

Duties

Mr. Machula is responsible for finding financing for us and handles most of our day-to-day matters as they relate to paying bills and other mundane details. He is also responsible for organizing information for accounting and legal matters. Mr. Machula has also jointly been involved in maintaining the website for Oasis.

Mr. Machula has to this point been a lender of last resort to us although there is no assurance that this will continue in the future.

Time with company

November, 2002 until present.

Robert M. Lepage

Mr. Lepage has been involved in the Canadian wireless industry for over 15 years.

Company

Mr. Lepage started in Toronto at Bell Cellular (now Bell Mobility) in 1987 in the RF engineering group. Bell Mobility, among other things provides cellular service to consumer and corporate clients.

Title and Duties

Mr. Lepage was an RF Analyst (Radio Frequency Analyst) at Bell. His primary focus was cellular network performance and he was instrumental in maintaining network integrity as the early analog system evolved into a comprehensive network serving millions of subscribers.

Time with the company

Mr. Lepage was at Bell from June, 1987 to April, 1990

Company

Bell Northern Research. Bell Northern Research was a subsidiary of Bell Telephone and was involved in cellular telephone development and research.

Title and Duties

Cellular Signal Researcher. In 1990-1991 he transferred to the Bell Northern Research labs in Richardson Texas, where he developed an IS-54 test bed for the first generation TDMA hardware platform. More simply, he was advancing cellular hardware technology.

Time with the company

July, 1990 to November 1991.

Upon his return to Toronto in 1992, he continued on with Bell Mobility and was involved with the verification of the first TDMA (type of signal used for cellular phones) roll-out on an active network, and continued to design expansion areas of the growing Ontario cellular network. He did this work until April of 1997.

Company

Clearnet PCS Inc. Clearnet was a cellular phone service provider before it was acquired by Telus.

Title and Duties

Radio Frequency Analyst. In 1997 Robert moved to Vancouver, B.C. and continued RF Engineering activities with Clearnet PCS Inc. He was responsible for the RF design of Clearnet's CDMA network in several key markets including, Vancouver, Calgary and Victoria, and managed the Clearnet RF engineering team just prior to his resignation in 2001.

Time with the company

May, 1997 to September 2001

Company

Nortel Networks. Supplies, among many other things, cellular site equipment.

Title and Duties

RF Consultant. In 2001, Robert took on a consulting role to Nortel Networks where he planned and designed the Vancouver and Victoria areas of the Bell Mobility CDMA 1X ready network in British Columbia.

Time with the company

February, 2001 to July 2002

Company

Oasis Wireless. Provides Wi-Fi (Wireless internet and email access at high traffic locations) service to prospective users.

Title and Duties

President, Oasis. Mr. Lepages duties entail handling all issues related to the Wi-Fi technology used in hot spots locations. Mr. Lepage has installed the technology and has the ability to service it as well. He also planned the website and oversaw its implementation from the interface to the billing system. Mr. Lepage has been our marketing person and for Oasis.

Time with the company

November, 2002 until currently

Mr. Lepage has a Bachelor of Technology and recently completed the Management Systems in Advanced Technology program at Simon Fraser University.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3, 4 and 5 furnished to the Company, none of the officers, directors or beneficial owners of more than ten percent of the Common Stock failed to file on a timely basis reports required to be filed by Section 16(a) of the Exchange Act during the most recent fiscal year.

ITEM 10. Executive Compensation

We have agreed to pay our president, Mr. Machula an annual salary of US$40,000. While Mr. Machula has drawn a total salary of $0 in 2005, for the time being he has stopped drawing a salary until such time that we have the financial resources to do so again. The salary is not being accrued. Accordingly, no back salary will ever be owed or paid to Mr. Machula. We have recorded the value of the services contributed by Mr. Machula for the year ending June 30, 2005 as an expense and contributed surplus totaling $40,000. Mr. Lepage was paid a of salary of $12,719.12 in 2005..

Annual Compensation Table

		Annual Compensation			Long-Term Compensation			
					Awards Payouts			
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Award(s) (#)	Securities Under-lying Options/ SARs (1)(#)	LTIP [(2)] Payout ($)	All Other Compensation ($)
Boris Machula, President and CEO	*2005*	*$ 0*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*

(1)

"SARS" or *"stock appreciation right"* means a right granted by US, as compensation for services rendered, to receive a payment of cash or an issue or transfer of securities based wholly or in part on changes in the trading price of our publicly traded securities.

(2)

"LTIP" or *"long term incentive plan"* means any plan which provides compensation intended to serve as incentive for performance to occur over a period longer than one financial year, but does not include option or stock appreciation right plans or plans for compensation through restricted shares or restricted share units.

Employee Benefit and Consulting Services Compensation Plan.

We have not reserved any issued or granted any securities or options.

ITEM 11. Security Ownership of Certain Beneficial Owners and Management

The table below provides the beneficial ownership of our common stock by each person known by management to beneficially own more than 5% of our common stock outstanding as of August 27, 2005 and by our officers and directors. Except as otherwise indicated, all shares are owned directly.

Name	Common Shares Owned (1)	Percent of Class
Boris Machula 2534 McDonald St. Vancouver, B.C V6K 3Z2 Canada	7,200,000	54.1%

Except as noted below, all shares are held beneficially and of record and each record shareholder has sole voting and investment power.

(1)

"*Beneficial ownership*" means having or sharing, directly or indirectly (i) voting power, which includes the power to vote or to direct the voting, or (ii) investment power, which includes the power to dispose or to direct the disposition, of shares of the common stock of an issuer. The definition of beneficial ownership includes shares underlying options or warrants to purchase common stock, or other securities convertible into common stock, that currently are exercisable or convertible or that will become exercisable or convertible within 60 days. Unless otherwise indicated, the beneficial owner has sole voting and investment power.

(1)

Percentage is calculated based upon 13,297,650 outstanding common shares at August 27, 2005

ITEM 12.

Certain Relationships and Related Transactions.

Except as disclosed below, none of the following persons has any direct or indirect material interest in any transaction to which we are a party since our incorporation or in any transaction to which we are proposed to be a party:

(a)

any director or officer;

(b)

any proposed nominee for election as a director;

(c)

any person who beneficially owns, directly or indirectly, shares carrying more than 10% of the voting rights attached to the Company's common stock; or

(d)

any relative or spouse of any of the foregoing persons, or any relative of such spouse, who has the same house as such person or who is a director or officer of any parent or subsidiary

Boris Machula, our sole officer and director, has made a series of unsecured, non-interest bearing demand loans to us that were necessary to keep our operations going. At June 30, 2005, these loans totaled $67,760.

We currently do not have any policies about entering into transactions with affiliated parties. Other than this transaction, no director, executive officer or nominee for election as a director and no owner of five percent or more of our outstanding shares or any member of their immediate family has entered into or proposed any transactions in which the amount involved exceeds US$10,000.

Part IV

ITEM 13. Exhibits, Financial Statements Schedules and Reports on Form 8-K

ITEM 13(a). EXHIBITS.

<u>Number</u>

<u>Description</u>

3.1

Articles of Incorporation

(1)

3.3

By-Laws..

(1)

4.1

Specimen Share Certificate

(1)

23.1

Consent of Independent Auditors

(1)

(2)

Incorporated by reference from Form SB-2 Registration Statement filed March 5, 2004.

Financial Statements

Financial statements, as described below, are attached hereto.

1. Audited financial statements for the periods ending June 30, 2005 and June 30, 2004 including:

(a)

Balance Sheets;

(b)

Statements of Operations;

(c)

Statements of Cash Flows;

(d)

Statement of Stockholders' Equity;

(e)

Notes to the Financial Statements.

ITEM 13(b). REPORTS ON FORM 8-K.

We filed no reports on Form 8-K during the last quarter of the fiscal year ended June 30, 2005, the period covered by this report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table discloses accounting fees and services which we paid to our auditor,

	2005	2004
Type of Services Rendered	**Fiscal Year**	**Fiscal Year**

(a) Audit Fees	$7,888	$9,400
(b) Audit-Related Fees	$8,300	$6,100
(eg. review of Form SB-2, Form 10-KSB, Form 10-QSB)		
(c) Tax Fees	$Nil	$Nil
(d) All Other Fees	$Nil	$1,500

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Reese Corp.

By:

/s/ Boris Machula

Boris Machula, President

Dated: August 27, 2005

In accordance with the *Securities Exchange Act*, this report has been signed below by the following person on behalf of the registrant and in the capacities and on the dates indicated.

By:

/s/ Boris Machula , Sole Director,

Principal Executive Officer,

Principal Financial Officer, and

Principal Accounting Officer

Date: August 27, 2005

EXHIBIT INDEX

Number

Description

Page

3.1

Articles of Incorporation

(1)

3.3

By-Laws...

(1)

4.1

Specimen Share Certificate

(1)

23.1

Consent of Independent Auditors

31.1

Certification of Chief Executive Officer and Chief Financial Officer

pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1

Certification of Steve Livingstone, Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes - Oxley Act of 2002

(1) Incorporated by reference from Form 10-SB Registration Statement filed on March 5, 2004 .

Exhibit 31.1

CERTIFICATION BY PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER

I, Boris Machula, certify that:

1.

I have reviewed this annual report on Form 10-KSB of Reese Corp.;

2.

Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3.

Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4.

The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a)

designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b)

evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c)

presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.

The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a)

all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.

The registrant s other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 27, 2005

/s/ Boris Machula

Boris Machula

Chief Executive Officer and

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION

I, Boris Machula, Chief Executive Officer and Chief Financial Officer of Reese Corp. certify that:

1.

I have reviewed this annual report on Form 10-KSB of Reese Corp.;

2.

Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3.

Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

REESE CORP.

Date: August 27, 2005

/s/ Boris Machula

Boris Machula

Chief Executive Officer and

Chief Financial Officer

REESE CORP.

(A Development Stage Company)

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005 and 2004

(Stated in US Dollars)

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A PARTNERSHIP OF INCORPORATED PROFESSIONALS

AMISANO HANSON

CHARTERED ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders,

Reese Corp.

(A Development Stage Company)

We have audited the accompanying consolidated balance sheets of Reese Corp. (A Development Stage Company) and its subsidiary as of June 30, 2005 and 2004 and the related consolidated statements of operations, cash flows and stockholders deficiency for the years ended June 30, 2005 and 2004 and for the period from November 20, 2002 (Date of Incorporation) to June 30, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements referred to above present fairly, in all material respects, the financial position of Reese Corp. and its subsidiary as of June 30, 2005 and 2004 and the results of their operations and their cash flows for the years ended June 30, 2005 and 2004 and for the period from November 20, 2002 (Date of Incorporation) to June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements referred to above have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, conditions exist which raise substantial doubt about the Company s ability to continue as a going concern unless it is able to generate sufficient cash flows to meet its obligations and sustain its operations. Management s plan in this regard to these matters is also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vancouver, Canada
July 22, 2005

AMISANO HANSON
CHARTERED ACCOUNTANTS

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amishan@telus.net

REESE CORP.

(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

June 30, 2005 and 2004

(Stated in US Dollars)

ASSETS	2005	2004
Current		
Cash	$ 6,179	$ 4,126
Equipment Note 3	-	1,938
	$ 6,179	$ 6,064
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 8,300	$ 7,883
Due to related parties Note 4	105,452	50,286
	113,752	58,169
STOCKHOLDERS DEFICIENCY		
Common stock, $0.001 par value		
50,000,000 shares authorized,		
13,297,650 shares issued (2004: 13,297,650)	13,298	13,298
Additional paid-in capital Note 6	23,482	23,482
Contributed surplus Note 4	70,000	40,000
Deficit accumulated during the development stage	(212,045)	(128,282)
Accumulated other comprehensive loss	(2,308)	(603)

	(107,573)	(52,105)
	$	$
	6,179	6,064

Nature and Continuance of Operation Note 1

Commitment Note 7

Subsequent Event Note 7

SEE ACCOMPANYING NOTES

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REESE CORP.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended June 30, 2005 and 2004

and for the periods from November 20, 2002 (Date of Inception) to June 30, 2005

(Stated in US Dollars)

			November 20, 2002 (Date of
Year ended	Year ended		

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INDUSTRY, CUSTOMERS AND MARKETING

The Company focuses on four major industries around the country: workers compensation, auto insurance, g municipalities.

The Company s customers primarily are workers compensation insurers and, to a lesser extent, TPAs and se employers. Many claims management decisions in workers compensation are the responsibility of the local c national or regional insurers. The Company s national branch office network has been established to enable th market and offer its services at both a local and national account level. The Company is placing increasing em account marketing. The marketing activities of the Company are conducted by account executives located in k areas. No single customer of the Company represented more than 10% of revenues in fiscal 2005, 2006 or 200

COMPETITION AND MARKET CONDITIONS

The healthcare cost containment industry is highly fragmented and competitive and is subject to shifting custo frequent introductions of new products and services, increased marketing activities of other industry participan reforms. The Company expects intensity of competition to increase in the future as existing competitors contin their products and services and as new companies enter the Company s market. The Company s primary con workers compensation market include some large insurance carriers which offer one or more services similar the Company, HMOs and numerous independent companies, typically on a local or regional basis. The Compa with national and local firms specializing in utilization review and with major insurance carriers and TPAs wh implemented their own internal utilization review services. Many of the Company s competitors are significa greater financial and marketing resources than the Company. Moreover, the Company s customers may estab capability of performing services offered by the Company. If the Company is unable to compete effectively, it for the Company to add and retain customers, and the Company s business, financial condition and results of seriously harmed.

Legislative reforms in some states permit employers to designate health plans such as HMOs and PPOs to cov compensation claimants. Because many health plans have the capacity to manage healthcare for workers con claimants, such legislation may intensify competition in the market served by the Company.

The Company believes that declines in workers compensation costs in these states are due principally to inte payors to manage and control claim costs, to improved risk management by employers and to legislative refor workers compensation costs occur in many states and persist over the long-term, they may have an adverse i Company s business, financial condition and results of operations.

The Company believes the principal factors that generally determine a company s competitive advantage in th market include the following: specialization in workers compensation, breadth of services, ability to offer loc nationwide basis, information management systems and independence from insurance carriers. There can be n the Company will be successful in all or any of these areas that the Company believes contribute to competitiv the Company will be able to compete successfully against current or potential competitors, or that competition material adverse effect on the Company s business, financial condition and results of operations.

GOVERNMENT REGULATIONS

General

Managed healthcare programs for workers compensation are subject to various laws and regulations. Both th

of applicable government regulation vary greatly depending upon the specific activities involved. Generally, p
provide or arrange for the provision of healthcare services, assume financial risk related to the provision of tho
undertake direct responsibility for making payment or payment decisions for those services, are subject to a nu
regulatory schemes that govern many aspects of their conduct and operations.

In contrast, the management and information services provided by the Company to its customers typically hav
subject of regulation by the federal government or the states. Since the managed healthcare field is a rapidly ex
changing industry and the cost of providing healthcare continues to increase, it is possible that the applicable s
regulatory frameworks will expand to have a greater impact upon the conduct and operation of the Company

Under the current workers compensation system, employer insurance or self-funded coverage is governed by
each of the 50 states and by certain federal laws. The management and information services that make up the C
managed care program serve markets that have developed largely in response to needs of insurers, employers a
and generally have not been mandated by legislation or other government action. On the other hand, the vocati
case management marketplace within the workers compensation system has been dependent upon the laws a
within those states that require the availability of specified rehabilitation services for injured workers. Similarl
fee schedule auditing services address market needs created by certain states enactment of maximum permiss
for workers compensation services. Changes in individual state regulation of workers compensation may cr
lesser demand for some or all of the Company s services or require the Company to develop new or modified
meet the needs of the marketplace and compete effectively in that marketplace.

California s Medical Provider Networks

In California, beginning January 1, 2005, an employer or insurer may establish a Medical Provider Network (
care for injured workers. The recent California legislation was designed to allow employers more control over
compensation claims by providing nearly 100% control over the life of a claim. Senate Bill 899 allows every C
employer to require their employees to utilize an MPN. Senate Bill 228 mandates that each California employe
Utilization Review per the American College of Occupational and Environmental Medicine (ACOEM) guid
Used in conjunction with SB 899 for the MPN, SB 228 has dramatically reduce the amount of medical paymen
individual claim.

Health Insurance Portability and Accountability Act (HIPAA) of 1996

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, requires the adoption of standard
exchange of health information in an effort to encourage overall administrative simplification and to enhance t
and efficiency of the healthcare industry. Pursuant to HIPAA, the Secretary of the Department of Health and H
has issued final rules concerning the privacy and security of health information, the establishment of standard
code sets. The HIPAA requirements only apply to covered entities, which include health plans, healthcare clea
healthcare providers that transmit any health information in electronic form. The Company s network solution
subject to HIPAA obligations through business associate agreements with our customers. We are also indirectl
HIPAA as a plan sponsor of a healthcare benefit plan for our own employees.

Of the HIPAA requirements, the privacy standards and the security standards have the most significant impact
operations. The privacy standards require covered entities to implement certain procedures to govern the use a
protected health information and to safeguard such information from inappropriate access, use or disclosure. P
information includes individually identifiable health information, such as an individual s medical records, tran
maintained in any format, including paper and electronic records. The privacy standards establish the different
individual permission that are required before a covered entity may use or disclose an individual s protected h
and establish new rights for the individual with respect to his or her protected health information.

The security standards are designed to protect health information against reasonably anticipated threats or haza
or integrity of the information, and to protect the information against unauthorized use or disclosure. The secu
establish a national standard for protecting the security and integrity of medical records when they are kept in
The Company is compliant with these security standards.

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Medical Cost Containments Litigation

Historically, governmental strategies to contain medical costs in the workers compensation field have been g legislation on a state-by-state basis. For example, many states have implemented fee schedules that list maxim reimbursement levels for healthcare procedures. In certain states that have not authorized the use of a fee sche adjusts bills to the usual and customary levels authorized by the payor. Opportunities for the Company s servi if more states legislate additional cost containment strategies. Conversely, the Company would be adversely a elect to reduce the extent of medical cost containment strategies available to insurance carriers and other payo strategies for cost containment that would not support a demand for the Company s services.

Healthcare Reform

There has been considerable discussion of healthcare reform at both the federal level and in numerous state le years. Due to uncertainties regarding the ultimate features of reform initiatives and the timing of their enactme cannot predict which, if any, reforms will be adopted, when they may be adopted, or what impact they may ha Company.

Vocational Rehabilitation Legislation

During the early 1970s, the case management marketplace within workers compensation was dominated by t medical management services. Such services were purchased at the option of insurance carriers with little or n legislative efforts within any of the states. By the mid-1970s, it became popular for states to legislate either su for vocational rehabilitation or, in some cases, mandatory vocational rehabilitation statutes.

SHAREHOLDER RIGHTS PLAN

During fiscal 1997, the Company s Board of Directors approved the adoption of a Shareholder Rights Plan. T Rights Plan provides for a dividend distribution to CorVel stockholders of one preferred stock purchase right f outstanding share of CorVel s common stock under certain circumstances. In April 2002, the Board of Direct approved an amendment to the Company s existing shareholder rights agreement to extend the expiration dat February 10, 2012, set the initial exercise price of each right at $118 (adjusted for the three-for-two stock split 50% stock dividend during fiscal 2007 as noted above) and enable Fidelity Management & Research Compan to purchase up to 18% of the shares of common stock of the Company without triggering the stockholder right under the stockholder rights agreement remain in effect for all other stockholders of the Company. The rights assure that all shareholders receive fair and equal treatment in the event of any proposed takeover of the Comp encourage a potential acquirer to negotiate with the Board of Directors prior to attempting a takeover. The rig exercise price of $118 per right, subject to subsequent adjustment. The rights trade with the Company s comn 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 Compa without the approval of the Board, subject to certain exceptions, the holders of the rights, other than the acqui group, would, under certain circumstances, have the right to purchase additional shares of the Company s co 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 con earning power are sold, then the right will entitle its holder to buy common shares of the acquiring entity havi equal to two times the then-current exercise price of the right. The Company s Board of Directors may excha rights under certain conditions.

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EMPLOYEES

As of March 31, 2007, CorVel had 2,631 employees, including nurses, counselors and other employees. No er represented by any collective bargaining unit. Management believes the Company s relationship with its emp

AVAILABLE INFORMATION

Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, made with the Securities and Exchange Commission, are available free of charge through our Website (http://v under the Investor Relations section) as soon as reasonably practicable after such reports are electronically file furnished to, the Securities and Exchange Commission. The inclusion of our Web site address and the address portals such as www.caremc.com and www.onlinedocumentcenter.com, in this report does not include or inco reference into this report any information contained on, or accessible through our Web sites.

Item 1A. ***Risk Factors.***

Risk Factors

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

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

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

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

In addition, changes in workers compensation, auto and managed health care laws or regulations may reduce services, require us to develop new or modified services to meet the demands of the marketplace or reduce the fees that we may charge for our services. One proposal which has been considered by Congress and legislatures is 24-hour health coverage, in which the coverage of traditional employer-sponsored health plans i workers compensation coverage to provide a single insurance plan for work-related and non-work-related he Incorporating workers compensation coverage into conventional health plans may adversely affect the marke because some employers would purchase 24-hour coverage from group health plans, which would reduce the CorVel s workers compensation customers.

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

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

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

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

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

We, through our utilization management services, make recommendations concerning the appropriateness of p treatment plans of patients throughout the country, and as a result, could be exposed to claims for adverse med consequences. We do not grant or deny claims for payment of benefits and we do not believe that we engage i medicine or the delivery of medical services. There can be no assurance, however, that we will not be subject litigation related to the authorization or denial of claims for payment of benefits or allegations that we engage 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 o financial condition or results of operations, including but not limited to being joined in litigation brought again in the managed care industry. We maintain professional liability insurance and such other coverages as we bel reasonable in light of our experience to date. If such insurance is insufficient or unavailable in the future at rea 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 health care costs managed care programs that utilize preferred prov
and computerized bill review programs. Health care providers have brought against us and our customers indi
action lawsuits challenging such programs. If such lawsuits are successful, we may incur significant liabilities

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

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

We face competition from PPOs, TPAs and other managed healthcare companies. We believe that as managed continue to gain acceptance in the workers compensation marketplace, our competitors will increasingly con nationally-focused workers compensation managed care service companies, insurance companies, HMOs an providers of managed care products. Legislative reforms in some states permit employers to designate health HMOs and PPOs to cover workers compensation claimants. Because many health plans have the ability to m for workers compensation claimants, such legislation may intensify competition in the markets served by us. current and potential competitors are significantly larger and have greater financial and marketing resources th there can be no assurance that we will continue to maintain our existing customers, our past level of operating successful with any new products or in any new geographical markets we may enter.

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

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

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

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

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

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

The performance of early intervention services, including injury occupational healthcare, first notice of loss, a management services, often result in a decrease in the average length of, and the total costs associated with, a By successfully intervening at an early stage in a claim, the need for additional

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cost containment services for that claim often can be reduced or even eliminated. As healthcare payors continu
utilization of early intervention services, the revenue from our later stage network and healthcare management
decrease.

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

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

If competition increases, our growth and profits may decline.

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

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

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

***If we fail to grow our business internally or through strategic acquisitions, we may be unable to execute our
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 r
industry, to consider acquisitions of, or relationships with, other companies in related lines of business. As a re
subject to certain growth-related risks, including the risk that we will be unable to retain personnel or acquire o
necessary to service such growth adequately. Expenses arising from our efforts to increase our market penetra
negative impact on operating results. In addition, there can be no assurance that any suitable opportunities for
acquisitions or relationships will arise or, if they do arise, that the transactions contemplated could be complete
transaction does occur, there can be no assurance that we will be able to integrate effectively any acquired bus
any such transaction would be subject to various risks associated with the acquisition of businesses, including,
the following:

an acquisition may negatively impact our results of operations because it may require incurring large o
substantial debt or liabilities; it may require the amortization or write down of amounts related to defer

goodwill and other intangible assets; or it may cause adverse tax consequences, substantial depreciatio
compensation charges;

we may encounter difficulties in assimilating and integrating the business, technologies, products, serv
operations of companies that are acquired, particularly if key personnel of the acquired company decid
us;

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an acquisition may disrupt ongoing business, divert resources, increase expenses and distract managen

the acquired businesses, products, services or technologies may not generate sufficient revenue to offs costs;

we may have to issue equity or debt securities to complete an acquisition, which would dilute stockhol adversely affect the market price of our common stock; and

acquisitions may involve the entry into a geographic or business market in which we have little or no p

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

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

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

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

Demand for our services could be adversely affected if our prospective customers are unable to implement t and security standards required under HIPAA.

For some of our network services, we routinely implement electronic data interfaces (EDIs) to our custome enable the exchange of information on a computerized basis. To the extent that our customers do not have suff implement the transactions and security standards required by HIPAA or to work with our information technol the implementation of our electronic interfaces, the demand for our network services could decline.

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

Certain aspects of our business are dependent upon our ability to store, retrieve, process and manage data and upgrade our data processing capabilities. Interruption of data processing capabilities for any extended length o

stored data, programming errors or other system failures could cause customers to cancel their service and cou
adverse effect on our business and results of operations.

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

The introduction of software products incorporating new technologies and the emergence of new industry s 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
technological changes or evolving industry standards. If we are unable, for technological or other reasons, to d
introduce new software products cost-effectively, in a timely manner and in response to changing market cond
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 th
rely on a combination of internal development, strategic relationships, licensing and acquisitions to develop ou
products and services. The cost of developing new healthcare information services and technology solutions is
difficult to estimate. Our development and implementation of proposed software products and services may ta
originally expected, require more testing than originally anticipated and require the acquisition of additional pe
resources. If we are unable to develop new or updated software products and services cost-effectively on a tim
implement them without significant disruptions to the existing systems and processes of our customers, we ma
sales and harm our relationships with current or potential customers.

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

We rely largely on our own security systems, confidentiality procedures and employee nondisclosure agreeme
privacy and security of our and our customers proprietary information. Accidental or willful security breaches
unauthorized access by third parties to our information systems, the existence of computer viruses in our data
misappropriation of our proprietary information could expose us to a risk of information loss, litigation and ot
liabilities which may have a material adverse effect on our business, financial condition and results of operatio
measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design fla
software are exposed and exploited, and, as a result, a third party obtains unauthorized access to any customer
relationships with our customers and our reputation will be damaged, our business may suffer and we could in
liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and
recognized until launched against a target, we may be unable to anticipate these techniques or to implement ad
preventative measures.

If we are unable to increase our market share among national and regional insurance carriers and large, s 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 co
as national and regional insurance carriers and large, self-funded employers look for ways to achieve cost savi
assure you that we will successfully market our services to these insurance carriers and employers or that they
other means to achieve cost savings. Additionally, our ability to capture additional market share may be adver
the decision of potential customers to perform services internally instead of outsourcing the provision of such
Furthermore, we may not be able to demonstrate sufficient cost savings to potential or current customers to inc
provide comparable services internally or to accelerate efforts to provide such services internally.

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

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

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

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

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

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

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

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

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

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

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

We have experienced a general decline in the revenue and operating performance of patient management servi that the performance decline has been due to the following factors: the decrease of the number of workplace in become longer-term disability cases; increased regional and local competition from providers of managed care possible reduction by insurers on the types of services provided by our patient management business; the closu continuing consolidation of our patient management operations; and employee turnover, including managemen our patient management business. In the past, these factors have all contributed to the lowering of our long-ter

patient management services. If some or all of these conditions continue, we believe that the performance of o
management revenues could decrease.

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Healthcare providers are becoming increasingly resistant to the application of certain healthcare cost conta 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 are engaging in litigation to avoid application of certain cost containment practices. Recent litigation between providers and insurers has challenged certain insurers claims adjudication and reimbursement decisions. Alth do not directly involve us or any services we provide, these cases may affect the use by insurers of certain cos services that we provide and may result in a decrease in revenue from our cost containment business.

Changes in the accounting treatment of stock-based awards have adversely affected our reported results of ope likely to continue to do so in the future.

Effective April 1, 2006, we adopted the provisions of SFAS No. 123R, Share-Based Payment, which establ equity instruments exchanged for employee services. Under the provisions of SFAS No. 123R, share-based co measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense ov requisite service period (generally the vesting period of the equity grant). Prior to April 1, 2006, we accounted compensation to employees in accordance with APB No. 25, Accounting for Stock Issued to Employees, ar interpretations. We also followed the disclosure requirements of SFAS No. 123, Accounting for Stock-Based amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. We e modified prospective transition method as provided by SFAS No. 123R and, accordingly, financial statement a prior periods presented have not been restated to reflect the fair value method of expensing share-based compe long-term impact of our adoption of SFAS No. 123(R) cannot be fully predicted at this time because that will the future fair values and number of share-based payments granted in the future. As a result of our adoption of SFAS No. 123(R), for the fiscal year ended March 31, 2007, we recorded share-based compensation expense which reduced our income before taxes by $1,258,000 and our net income by $767,000. Basic and diluted ear were each reduced by $0.05 for the fiscal year ended March 31, 2007. This requirement may continue to adver reported results of operations.

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

Our fiscal 2007 management assessment and related audit revealed material weaknesses in our internal control reporting related to the size of our accounting staff, lack of an effective control monitoring process and inadeq controls. We are attempting to cure these material weaknesses by taking the steps described in Part II, Item 9A we have not yet completed such remediation and there can be no assurance that such remediation will be succe course of our continued testing, we also may identify other significant deficiencies or material weaknesses, in ones already identified, which we may not be able to remediate in a timely manner or at all. If we continue to maintain effective internal controls, we will not be able to conclude that we have effective internal controls ov reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. In addition, since 2005, we have delays in completing our internal controls and financial audits, which have resulted in the untimely filing of ou on Form 10-K for the fiscal years ended March 31, 2005 and 2006, and the filing of several notifications of lat Form 12b-25. Failure to achieve and maintain an effective internal control environment, and delays in complet controls and financial audits, could cause investors to lose confidence in our reported financial information an result in a decline in the market price of our common stock, and cause us to fail to meet our reporting obligatio which in turn could impact our ability to raise equity financing if needed in the future.

Item 1B. ***Unresolved Staff Comments.***

None.

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Item 2. ***Properties.***

The Company s principal executive office is located in Irvine, California in approximately 10,600 square feet
The lease expires in September 2013. The Company leases 125 branch offices in 49 states, which range in size
1,000 square feet up to approximately 16,000 square feet. The lease terms for the branch offices range from m
and expire through 2016. The Company believes that its facilities are adequate for its current needs and that su
space will be available as required.

Item 3. ***Legal Proceedings.***

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

Item 4. ***Submission of Matters to a Vote of Security Holders.***

There were no matters submitted to a vote of stockholders during the quarter ended March 31, 2007.

PART II

Item 5. ***Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases Securities.***

Market Information

The Company s common stock is traded on the NASDAQ Global Select Market under the symbol CRVL. Th
low per share sales prices for the Company s common stock for fiscal years 2006 and 2007 as reported by NA
below for the periods indicated. These prices represent prices among dealers, do not include retail markups, m
commissions, and may not represent actual transactions. These prices have been adjusted to reflect the Compa
stock split in the form of a 50% stock dividend distributed on December 8, 2006 to shareholders of record on N
2006.

	Hig
Fiscal Year Ended March 31, 2006:	
Quarter Ended June 30, 2005:	$ 18
Quarter Ended September 30, 2005:	19
Quarter Ended December 31, 2005:	15
Quarter Ended March 31, 2006:	14
Fiscal Year Ended March 31, 2007:	
Quarter Ended June 30, 2006:	$ 17
Quarter Ended September 30, 2006:	24
Quarter Ended December 31, 2006:	49
Quarter Ended March 31, 2007:	49

Holders. As of May 15, 2007, there were approximately 1,500 holders of record of the Company s common s
the information provided by the Company s transfer agent.

Dividends. The Company has never paid any cash dividends on its common stock and has no current plans to
foreseeable future. The Company intends to retain future earnings, if any, for use in the Company s business.
any future dividends on its common stock will be determined by the Board of Directors in light of conditions t
including the Company s earnings, financial condition and requirements, restrictions in financing agreements
conditions and other factors.

Unregistered Sales of Equity Securities. None.

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Issuer Purchases of Equity Securities: The following table summarizes any purchases of the Company comm
or on behalf of the Company for the quarter ended March 31, 2007 pursuant to a publicly announced plan. Du
ended December 31, 2006, the Company s Board of Directors approved a three-for-two stock split in the form
dividend with a date of record on November 20, 2006 and a date of distribution of December 8, 2006. All shar
amounts have been adjusted retroactively to reflect the stock split for all periods shown.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Max Shar Pu
January 1 to January 31, 2007			11,211,753	
February 8 to February 22, 2007	147,644	$ 35.59	11,359,397	
March 1 to March 31, 2007			11,359,397	
Total	147,644	$ 35.59	11,359,397	

In 1996, the Company s Board of Directors authorized a stock repurchase program initially for up to 100,000
Company s common stock. The Company s Board of Directors has periodically increased the number of sha
repurchase under the program. The most recent increase occurred in June 2006 and brought the number of sha
repurchase over the life of the program to 12,150,000 shares, as adjusted for the three-for-two stock split in th
stock dividend distributed on December 8, 2006 to shareholders of record on November 20, 2006. There is no
the plan.

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STOCK PERFORMANCE GRAPH

The graph depicted below shows a comparison of cumulative total stockholder returns for the Company, the N
Nasdaq Health Services Index over a five year period beginning on March 31, 2002. The data depicted on the
forth in the chart below the graph. The graph assumes that $100 was invested in the Company s Common Sto
2002, and in each index, and that all dividends were reinvested. No cash dividends have been paid or declared
Stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder

CORVEL STOCK PERFORMANCE CHART

	2002	2003	2004	2005	2006
CorVel Corporation	100.00	109.20	121.32	71.44	73.8
U.S. Nasdaq	100.00	73.40	108.33	109.06	128.6
U.S. Nasdaq Healthcare Services	100.00	81.90	140.31	173.34	229.2

Notwithstanding anything to the contrary set forth in any of our previous filings made under the Securities Ac
amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings made by u
statutes, neither the preceding Stock Performance Graph, nor the information relating to it, is soliciting mater
to be incorporated by reference into any such prior filings, nor shall such graph or information be incorporated
any future filings made by us under those statutes.

Item 6. ***Selected Financial Data.***

The selected consolidated financial data of the Company appears in a separate section of this Annual Report o
page 35 and is incorporated herein by this reference.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

Management s Discussion and Analysis of Financial Condition and Results of Operations appears in a separa
Annual Report on Form 10-K beginning on page 36 and is incorporated herein by this reference.

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Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

As of March 31, 2007, the Company held no market risk sensitive instruments for trading purposes and the Co
employ any derivative financial instruments, other financial instruments, or derivative commodity instruments
market risk. The Company had no debt outstanding as of March 31, 2007, and therefore, had no market risk re

Item 8. ***Financial Statements and Supplementary Data.***

The Company s consolidated financial statements, as listed under Item 15, appear in a separate section of this
Form 10-K beginning on page 51 and are incorporated herein by this reference. The financial statement schedu
below under Item 15(a) (2).

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

On August 14, 2006, the Company advised Grant Thornton LLP that it was dismissed by the Audit Committee
independent registered public accounting firm. Grant Thornton s report on the Company s consolidated finan
the fiscal years ended March 31, 2006 and 2005 did not contain an adverse opinion or a disclaimer of opinion
qualified or modified as to uncertainty, audit scope, or accounting principles, except that (i) Grant Thornton s
year ended March 31, 2006 contained an adverse opinion on the effectiveness of the Company s internal cont
reporting because of material weaknesses and (ii) Grant Thornton s report for the fiscal year ended March 31,
following statement: Since management was unable to complete its assessment of internal control over finan
March 31, 2005, and we were unable to apply other procedures to satisfy ourselves as to the effectiveness of th
internal control over financial reporting, the scope of our work was not sufficient to enable us to express, and w
express, an opinion on either management s assessment or on the effectiveness of the Company s internal co
reporting in our report dated July 15, 2005.

During the two year period ended March 31, 2006, and for the period from April 1, 2006 through the date of d
have been no disagreements between the Company and Grant Thornton on any matter of accounting principles
financial statement disclosure, or auditing scope or procedure, which, if not resolved to Grant Thornton s sati
have caused Grant Thornton to make reference to the subject matter of such disagreements in connection with
report on the Company s financial statements.

Under Item 304(a)(1)(v)(A) of Regulation S-K promulgated by the Securities and Exchange Commission purs
Securities Exchange Act of 1934, as amended, Grant Thornton has advised the Company of material weakness
Company s internal controls identified by management and reported on the Company s Form 10-K and 10-Q
2006 and August 14, 2006 respectively. The Company s Audit Committee has discussed these material weakn
Thornton and management has authorized Grant Thornton to respond fully to the inquiries of the successor acc
these material weaknesses.

On October 2, 2006, the Audit Committee selected and appointed Haskell & White LLP to serve as the Compa
auditors for the fiscal year ended March 31, 2007. During the two year period ended March 31, 2006, and for t
from April 1, 2006 until the engagement of Haskell & White, neither the Company, nor anyone engaged on its
consulted with Haskell & White LLP regarding (i) the application of accounting principles to a specified trans
completed or proposed; or the type of audit opinion that might be rendered on the Company s financial statem
matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and th
instructions thereto) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Offic
Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period cover
pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934,

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as amended (the Exchange Act). Based on that evaluation, our Chief Executive Officer and our Chief Finan concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were to the material weaknesses in our internal control over financial reporting as of March 31, 2007, described bel

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial repor control system is designed to provide reasonable assurance to our management, the Board of Directors and inv reliable preparation and presentation of published financial statements. Nonetheless, all internal control system well designed, have inherent limitations. Even systems determined to be effective as of a particular date can o reasonable assurance with respect to reliable financial statement preparation and presentation.

A material weakness in internal control over financial reporting is a control deficiency (within the meaning of Company Accounting Oversight Board (United States) Auditing Standard No. 2), or a combination of control result in there being more than a remote likelihood of material misstatement in the annual or interim financial not be prevented or detected.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 20 assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Trea in Internal Control Integrated Framework (COSO). Based on our assessment, we believe that, as of March 3 internal control over financial reporting was ineffective based on those criteria, in consideration of the materia described below.

Control environment. We did not maintain an effective control environment. Specifically, (i) we did not ensu of Directors committees evaluated its performance against the functions mandated by their associated charte responsibilities within our accounting and reporting function do not support adequate control over financial re (iii) we did not maintain sufficient anti-fraud controls, such as an effective independent whistleblower progra resource procedures, such as background investigations and consistent performance reviews for key personnel communication regarding performance expectations and ensuring adequate understanding and reinforcement c conduct and (iv) we failed to maintain a sufficient complement of skilled personnel in the areas of accounting reporting.

Segregation of duties. We did not maintain proper segregation of duties. Specifically, proper segregation of d expenditures, accounts payable, payroll and cash disbursements was not maintained. Management identified n where various employees were responsible for custody, initiating, recording, and/or approving transactions, as of assets.

Accounting for income taxes. Effective controls over income tax accounting were not maintained. Specificall not designed and in place to ensure that: (i) calculations, assumptions, exposures, estimates, and disclosures w reviewed, (ii) temporary and permanent book to tax differences are properly identified, (iii) deferred tax assets (iv) all tax-related accounts, including the income tax provision rate and pre-tax income, are properly reconcil balance and tax returns, (v) all quarterly tax payments are accurately tracked and recorded, and (vi) accountin possessed sufficient knowledge with respect to GAAP in this area.

Financial close and reporting. We did not maintain enough skilled accounting resources supporting the finan reporting processes to ensure (i) changes and entry to spreadsheets utilized in the financial reporting process w reviewed, (ii) significant estimates and judgments were adequately supported, reviewed, approved and evalua experiences, (iii) effective and timely analysis and reconciliation of significant accounts, and (iv) a proper rev entries and procedures.

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Accounts Payable. We did not maintain adequate controls to ensure the proper inclusion of out-of-period invo
to goods and services we received, and therefore, the completeness of our accounts payable.

Stock-based Compensation. We did not maintain adequate controls to ensure that compensation expense asso
option grants was recognized in a manner consistent with the performance conditions of Statement of Financia
Standards No. 123(R), Share-based Payment. Additionally, our detective controls over certain inputs made
accounting software did not operate effectively.

The Company s independent registered public accounting firm, Haskell & White LLP, has issued an attestatio
management s assessment of the effectiveness of the Company s internal control over financial reporting as
which appears on page 48 of this Annual Report on Form 10-K.

Remediation Activities

The following activities remediated many material weaknesses in prior years: (i) an accountant was hired to in
analysis and timely posting affecting multiple accounts such as revenue, receivables, expenditures and payable
journal entry and reconciliation controls. In addition, (i) focus on control operation was improved to support c
of controls, and (ii) control environment improvements were implemented including modifications in Board o
in regularly discussing fraud and consistently documenting meetings.

Management is committed to correcting material weaknesses and will continue to evaluate appropriate remedi

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Item 9B. *Other Information.*

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information in the sections titled Proposal One: Election of Directors, Corporate Governance, Board Board Committees, Directors and Executive Officers of the Company, and Section 16(a) Beneficial Ow Compliance appearing in the Company s Definitive Proxy Statement for the 2007 Annual Meeting of Stock incorporated herein by reference.

The Board of Directors has adopted a code of ethics and business conduct that applies to all of the Company officers and directors. The full text of the Company s code of ethics and business conduct is posted on the Co http://www.corvel.com under the Investor Relations section. The Company intends to disclose future amen provisions of the Company s code of ethics and business conduct, or waivers of such provisions, applicable to directors and executive officers, at the same location on the Company s Web site identified above. The inclus Company s Web site address in this report does not include or incorporate by reference the information on the site into this report.

Item 11. ***Executive Compensation***

The information in the sections titled Executive Compensation, Compensation Discussion and Analysis, Committee Interlocks and Insider Participation, Compensation Committee Report, and Compensation of stated therein, appearing in the Company s Definitive Proxy Statement for the 2007 Annual Meeting of Stock incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder M***

The information in the sections titled Security Ownership of Certain Beneficial Owners and Management an Stockholder Matter and Equity Compensation Plan Information appearing in the Company s Definitive P 2007 Annual Meeting of Stockholders is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Party Transactions, and Director Independence***

The information in the sections titled Certain Relationships and Related Person Transactions, Proposal O Directors, and Corporate Governance, Board Composition and Board Committees appearing in the Comp Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference.

Item 14. ***Principal Accounting Fees and Services***

The information in the sections titled Principal Accountant Fees and Services and Audit Committee Pre-A Permissible Non-Audit Services of Independent Auditors under the caption Ratification of Appointment of Auditors appearing in the Company s Definitive Proxy Statement for the 2007 Annual Meeting of Stockhol herein by reference.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a)(1) *Financial Statements:*

The Company s financial statements appear in a separate section of this Annual Report on Form 10-K beginn referenced below:

Reports of Independent Registered Public Accounting Firms
Consolidated Statements of Income for the Years Ended March 31, 2005, 2006, and 2007
Consolidated Balance Sheets as of March 31, 2006 and 2007
Consolidated Statements of Stockholders Equity for the Years Ended March 31, 2005, 2006, and 2007
Consolidated Statements of Cash Flows for the Years Ended March 31, 2005, 2006, and 2007
Notes to Consolidated Financial Statements

(2) *Financial Statement Schedule:*

The Company s consolidated financial statements, as listed under Item 15(a) (1), appear in a separate section Report on Form 10-K beginning on page 48. The Company s financial statement schedule is as follows:

Schedule II Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions
Allowance for doubtful accounts:			
Year Ended March 31, 2007:	$ 3,487,000	$ 2,462,000	$ (2,439,000)
Year Ended March 31, 2006:	3,487,000	3,713,000	(3,713,000)
Year Ended March 31, 2005:	3,470,000	2,355,000	(2,338,000)

(3) *Exhibits:*

EXHIBITS

Exhibit No.	Title	Method of Filing
2.1	Asset Purchase Agreement dated December 15, 2006 by and among the Company s subsidiary, CorVel	Incorporated herein by reference to Company s Form 8-K filed on Febr

	Enterprise Comp, Inc., and Hazelrigg Risk Management Services, Inc., Comp Care, Inc., Medical Auditing Services, Inc., and Arlene Hazelrigg.	
2.2	Stock Purchase Agreement dated May 31, 2007 by and among the Company s subsidiary, CorVel Enterprise Comp, Inc., The Schaffer Companies, Ltd., and Dawn Colwell, Christopher Schaffer, John Colwell and Kelly Ribeiro de Sa.	Incorporated herein by reference to Company s Form 8-K filed on June

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Exhibit No.	Title	Method of Filing
3.1	Amended and Restated Certificate of Incorporation of the Company	Incorporated herein by reference to Company s Quarterly Report on Fo quarterly period ended September 3 November 14, 2002.
3.2	Amended and Restated Bylaws of the Company	Incorporated herein by reference to Company s Quarterly Report on Fo quarterly period ended June 30, 200 14, 2006.
10.1*	Nonqualified Stock Option Agreement between V. Gordon Clemons, the Company and North Star together with all amendments and addendums thereto	Incorporated herein by reference to Company s Registration Statement Registration No. 33-40629 initially 1991.
10.2*	Supplementary Agreement between V. Gordon Clemons, the Company and North Star	Incorporated herein by reference to Company s Registration Statement Registration No. 33-40629 initially 1991.
10.3*	Amendment to Supplementary Agreement between Mr. Clemons, the Company and North Star	Incorporated herein by reference to Company s Annual Report on Form year ended March 31, 1992 filed on
10.4*	Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan)	Incorporated herein by reference to Company s Current Report on Form August 9, 2006.
10.5*	Forms of Notice of Grant of Stock Option, Stock Option Agreement and Notice of Exercise Under the Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option)	Incorporated herein by reference to Company s Quarterly Report on Fo quarterly period ended September 3 November 9, 2006, Exhibits 10.7, 1 Company s Annual Report on Form year ended March 31, 1994 filed on Exhibits 99.2, 99.3, 99.4, 99.5, 99.6 the Company s Registration Statem (File No. 333-94440) filed on July 1 Exhibits 99.3 and 99.5 to the Compa Statement on Form S-8 (File No. 33 July 2, 1998.
10.6*	Employment Agreement of V. Gordon Clemons	Incorporated herein by reference to the Company s Registration Statem Registration No. 33-40629 initially 1991.
10.7*	Restated 1991 Employee Stock Purchase Plan, as amended	Incorporated herein by reference to Company s Company s Registratio Form S-8 (File No. 333-128739) fil 30, 2005.
10.8	Fidelity Master Plan for Savings and Investment, and amendments	Incorporated herein by reference to and 10.16A to the Company s Regi on Form S-1 Registration No. 33-40

on May 16, 1991.

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Exhibit No.	Title	Method of Filing
10.9	Preferred Shares Rights Agreement, dated as of February 11, 1997, by and between Corvel Corporation and U.S. Stock Transfer Corporation, including the Certificate of Determination, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B and C, respectively (Shareholder Rights Plan)	Incorporated herein by reference to Company s Form 8-K filed on Febr
10.10	Amended and Restated Preferred Shares Rights Agreement, dated as of April 11, 2002, by and between CorVel Corporation and U.S. Stock Transfer Corporation, including the Certificate of Determination, the Certificate of Amendment of the Certificate of Determination, the form of Rights Certificate (as amended) and the Summary of Rights (as amended) attached thereto as Exhibits A-1, A-2, B and C, respectively (Amended Shareholder Rights Plan)	Incorporated herein by reference to Company s Form 8-K filed on May
10.11*	Employment Agreement effective May 26, 2006 by and between CorVel Corporation and of Dan Starck	Incorporated herein by reference to Company s Form 8-K filed on May
10.12*	Stock Option Agreement and Acceleration Addendum dated May 26, 2006 by and between CorVel Corporation and Dan Starck, providing for time vesting	Incorporated herein by reference to Company s Form 8-K filed on May
10.13*	Stock Option Agreement and Acceleration Addendum dated May 26, 2006 by and between CorVel Corporation and Dan Starck, providing for performance vesting.	Incorporated herein by reference to Company s Current Report on Forr 30, 2006.
10.14*	Stock Option Agreement dated May 26, 2006 by and between CorVel Corporation and Scott McCloud, providing for performance vesting.	Incorporated herein by reference to Company s Current Report on Forr 2, 2006.
21.1	Subsidiaries of the Company	Filed herewith.
23.1	Consent of Independent Registered Public Accounting Firm, Haskell & White LLP	Filed herewith.
23.2	Consent of Independent Registered Public Accounting Firm, Grant Thornton	Filed herewith.
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
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.

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Exhibit No.	Title	Method of Filing
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.

* Denotes management contract or compensatory plan or arrangement.

Confidential treatment was requested for certain confidential portions of this exhibit pursuant to Rule Securities Exchange Act of 1934. In accordance with Rule 24b-2, these confidential portions were omit exhibit and filed separately with the Securities and Exchange Commission.

(b) *Exhibits*

The exhibits filed as part of this report are listed under Item 15(a) (3) of this Annual Report on Form 10-K.

(c) *Financial Statement Schedule*

The Financial Statement Schedules required by Regulation S-X and Item 8 of this form are listed under Item 1 Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant ha
report to be signed on its behalf by the undersigned thereunto duly authorized.

Corvel Corporation

By: /s/ V. Gordon Clemons
V. Gordon Clemons
Chairman and Chief Executive Officer

Date: June 14, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the
on behalf of the Registrant and in the capacities indicated on June 14, 2007.

Signature	Title
/s/ V. Gordon Clemons V. Gordon Clemons	Chairman and Chief Executive Offic (Principal Executive Officer)
/s/ Scott R. McCloud Scott R. McCloud	Chief Financial Officer (Principal Financial and Accounting Of
/s/ Alan Hoops Alan Hoops	Director
/s/ Steven J. Hamerslag Steven J. Hamerslag	Director
/s/ Judd Jessup Judd Jessup	Director
/s/ Jeffrey J. Michael Jeffrey J. Michael	Director

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data for each of the fiscal years for the five fiscal years ended March 31, 200 derived from the Company s audited consolidated financial statements. The following data should be read in the Company s Consolidated Financial Statements, the related notes thereto, and Management s Discussion Financial Condition and Results of Operations. The following amounts are in thousands, except per share da share amounts have been adjusted to reflect the three-for-two stock split in the form of a 50% stock dividend December 8, 2006 to shareholders of record on November 20, 2006.

	Fiscal Year Ended March 31,			
	2003	2004	2005	2006
Statement of Income Data:				
Revenues	$ 282,776	$ 305,279	$ 291,000	$ 266,504
Cost of revenues	230,991	253,846	246,341	221,060
Gross profit	51,785	51,433	44,659	45,444
General and administrative	25,081	26,067	28,144	29,590
Income before income taxes	26,704	25,366	16,515	15,854
Income tax provision	10,147	9,353	6,358	6,101
Net income	$ 16,557	$ 16,013	$ 10,157	$ 9,753
Net income per share:				
Basic	$ 1.03	$ 1.01	$ 0.65	$ 0.67
Diluted	$ 1.00	$ 0.98	$ 0.64	$ 0.67
Shares used in computing net income per share:				
Basic	16,103	15,878	15,629	14,534
Diluted	16,586	16,257	15,780	14,592
Return on beginning of year equity	27.4%	24.1%	13.2%	13.3
Return on beginning of year assets	20.5%	16.6%	9.5%	9.2

	2003	2004	2005	2006
Balance Sheet Data as of March 31,				
Cash and cash equivalents	$ 5,913	$ 8,641	$ 8,945	$ 14,20
Accounts receivable, net	45,394	45,538	45,611	39,52
Working capital	36,865	40,598	38,599	34,59
Total assets	96,645	106,716	105,698	100,09
Retained earnings	103,232	119,245	129,402	139,15
Treasury stock	(84,127)	(96,281)	(113,481)	(132,20
Total stockholders equity	66,572	76,974	73,593	68,03

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management s Discussion and Analysis of Financial Condition and Results of Operations may include c forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, an the Securities Exchange Act of 1934, as amended, including (without limitation) statements with respect to an operating and financial performance, growth and acquisition opportunities and other similar forecasts and stat expectation. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, should and variations of these words and similar expressions, are intended to identify these forward-lookin Forward-looking statements made by the Company and its management are based on estimates, projections, b 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 occur events, the receipt of new information or otherwise. Actual future performance, outcomes and results may diff those expressed in forward-looking statements made by the Company and its management as a result of a num uncertainties and assumptions. Representative examples of these factors include (without limitation) general i economic conditions; cost of capital and capital requirements; competition from other managed care compani expand certain areas of the Company s business; shifts in customer demands; the ability of the Company to p market-competitive software; changes in operating expenses including employee wages, benefits and medical governmental and public policy changes, including but not limited to legislative and administrative law and ru or change; dependence on key personnel; possible litigation and legal liability in the course of operations; the availability of financing in the amounts and at the terms necessary to support the Company s future business; identified under the heading Risk Factors appearing elsewhere in this report.

Overview

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

Network Solutions Services

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

Patient Management Services

In addition to its network solutions services, the Company offers a range of patient management services, whi working on a one-on-one basis with injured employees and their various healthcare professionals, employers a company adjusters. Patient management services are designed to monitor the medical necessity and appropria healthcare services provided to workers compensation and other healthcare claimants and to expedite return- Company offers these services on a stand-alone basis, or as an integrated component of its medical cost conta

Organizational Structure

The Company s management is structured geographically with regional vice-presidents who report to the Pres Company. Each of these regional vice-presidents is responsible for all services provided by the Company in hi region and responsible for the operating results of the Company in multiple states.

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These regional vice presidents have area and district managers who are also responsible for all services provid
Company in their given area and district.

Business Enterprise Segments

We operate in one reportable operating segment, managed care. The Company s services are delivered to its c its local offices in each region and financial information for the Company s operations follows this service de regions provide the Company s patient management and network solutions services. Statement of Financial A Standards, or SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establi way that public business enterprises report information about operating segments in annual consolidated finan The Company s internal financial reporting is segmented geographically, as discussed above, and managed o rather than service-line basis, with virtually all of the Company s operating revenue generated within the Uni

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

Because we believe we meet each of the criteria set forth above and each of our regions have similar economi we aggregate our results of operations in one reportable operating segment.

Seasonality

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

Executive Summary of Fiscal 2007 Annual Results

The Company reported revenues of $275 million for fiscal year ended March 31, 2007, an increase of $8 milli compared to $267 million in fiscal year ended March 31, 2006, primarily due to an increase in network solutio by a decrease in patient management revenues. The Company reported an increase in revenue for the quarter e 2006 of $3.3 million, or 5%, to $69.8 million. The Company reported sequential revenue decreases for the nex fiscal 2007 at 3.5% and 1.1%, respectively, declines from the previous quarter. In the quarter ended March 31 Company reported revenues of $70.9 million, an increase in revenue of $4.3 million, or 6.5%, over the $66.6 the previous quarter ended December 31, 2006. The revenue for the quarter ended March 31, 2007 also benefi business days in the quarter compared to the quarter ended December 31, 2006 and the results from the acquis below.

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

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Under FASB 123R, the Company began to record stock compensation expense on the income statement begin for the fiscal year ended March 31, 2007. During the prior fiscal years, the Company reported the stock compe after-tax, only in a pro forma calculation in the footnotes to the financial statements. During the fiscal year enc 2007, the Company recorded a stock compensation expense of $1,258,000 before income taxes, and $767,000 expense. The stock compensation charge reduced diluted earnings per share by $.05.

In December 2006, the Company s wholly owned subsidiary, CorVel Enterprise Comp Inc., entered into an A Agreement with Hazelrigg Risk Management Services, Inc., a third party administrator located in California, a companies (Hazelrigg) to acquire certain assets and liabilities of Hazelrigg, for an initial cash payment of $ of Hazelrigg also has the potential to receive up to an additional $2.5 million in a cash earnout based upon the by the Hazelrigg business during the one-year period after consummation of the acquisition, which earnout ma based upon the occurrence of certain post-acquisition events. The Company completed the acquisition on Janu paid the initial cash payment on that date. The results of the acquired business for the period from February 1, March 31, 2007 are included with the Company s results for the quarter and fiscal year ended March 31, 2007 ended March 31, 2007, the results of the acquired business increased the Company s revenues by less than $3 approximately 1%. The acquisition of Hazelrigg enables the Company to further expand its managed care serv claims processing in addition to patient management and network solutions.

Results of Operations

The Company derives its revenues from providing patient management and network solutions services to payo compensation benefits, auto insurance claims and health insurance benefits. Patient management services inclu review, medical case management and vocational rehabilitation. Network solutions revenues include fee sched hospital bill auditing, independent medical examinations, diagnostic imaging review services and preferred pr services. The percentages of total revenues attributable to patient management and network solutions services ended March 31, 2005, 2006, and 2007 are listed below.

	2005	2006
Patient management services	44.4%	42.
Network solutions services	55.6%	57.
	100.0%	100.

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As noted in the table above, from fiscal 2006 to fiscal 2007 the mix of the Company s revenues moved an add 3.6 percentage points from patient management services to network solutions services. This is due to the decre management services, offset by the increase in network solutions services which has a higher gross margin. Th significant impact on the income statement as outlined below. While the Company s revenue showed a modes to the shift to a higher margin product, the net income grew over 90%. The following table shows the dollar am from fiscal 2005 to fiscal 2006 and fiscal 2007 and the related percentage changes. The following amounts are except for share data.

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Amount Change from Fiscal 2005 to 2006	Amount Change from Fiscal 2006 to 2007	Percentag Change from Fiscal 2005 to 2006
Revenues	$ 291,000	$ 266,504	$ 274,581	$ (24,496)	$ 8,077	(8.4
Cost of revenues	246,341	221,060	208,746	(25,281)	(12,314)	(10.2
Gross profit	44,659	45,444	65,835	785	20,391	1.8
General and administrative	28,144	29,590	35,383	1,446	5,793	5.1
Income before income taxes	16,515	15,854	30,452	(661)	14,598	(4.0
Income tax provision	6,358	6,101	11,876	(257)	5,775	(4.0
Net income	$ 10,157	$ 9,753	$ 18,576	$ (404)	$ 8,823	(4.0
Net income per share:						
Basic	$ 0.65	$ 0.67	$ 1.32	$ .02	$ 0.65	3.1
Diluted	$ 0.64	$ 0.67	$ 1.30	$ .03	$ 0.63	4.7
Shares used in income per share:						
Basic	15,629	14,534	14,070	(1,095)	(464)	(7.0
Diluted	15,780	14,592	14,268	(1,188)	(324)	(7.5

As previously identified in the section titled Risk Factors in this report, the Company s ability to maintain contingent on several factors including, but not limited to, changes in government regulations, exposure to litig ability to add or retain customers. Any of these, or a combination of all of them, could have a material impact results going forward.

Income Statement Percentages

The following table sets forth, for the periods indicated, the percentage of revenues represented by certain item Company s consolidated statements of income. The Company s past operating results are not necessarily ind operating results. The percentages for the three fiscal years ended March 31, 2005, 2006 and 2007 are as follo

	2005	2006
Revenues	100.0%	100.
Cost of revenues	84.6	82.
Gross profit	15.4	17.
General and administrative	9.7	11.
Income before income taxes	5.7	6.
Income tax expense	2.2	2.
Net income	3.5%	3.

Revenue

The Company derives its revenues from providing patient management and network solutions services to payo
compensation benefits, auto insurance claims and health insurance benefits. Patient management services inclu
review, medical case management and vocational rehabilitation. Network solutions revenues include fee sched
hospital bill auditing, independent medical examinations, diagnostic imaging review services and preferred pr
services.

Change in Revenue

Fiscal 2007 Compared to Fiscal 2006

Revenues increased by 3.0%, to $275 million in fiscal 2007, from $267 million in fiscal year 2006, an increase
The increase was attributable to the Company s network solutions services revenue increasing $14.7 million,
$167.2 million in fiscal 2007. This increase was primarily due to an increase in the volume of out of network b
which generate greater revenue per bill and an increase in revenue per provider bill reviewed due to increased
for the Company s customers, and the Company s focus of shifting its revenue mix to greater network soluti
the increase in network solutions was offset by a decrease in the Company s patient management services. Pa
revenues decreased $6.6 million, or 5.8%, to $107.4 million in fiscal 2007. This decrease was primarily due to
referral volume offset by a nominal increase in price of services.

The Company has been negatively impacted by a reduction in the overall claims volume due to employers imp
workplace safety programs. Employers have also been more aggressive in seeking early intervention services
Company and the Company s competitors offer, decreasing the length of a claim and decreasing the need for
management services. The Company s ability to add or retain customers, changes in the workers compensatio
in nationwide employment and the frequency of workplace injuries and illnesses could have a material impact
ability to maintain or grow revenue in the future.

Fiscal 2006 Compared to Fiscal 2005

Revenues decreased by 8.2% to $267 million in fiscal 2006, from $291 million in fiscal year 2005, a decrease
Nearly two-thirds of this decrease was attributable to the decrease in revenue from the Company s patient ma
primarily due to a decrease in the patient management referrals received by the Company. The decrease was p
of a continued softness in the national labor market, especially the manufacturing sector of the economy. The
negatively impacted by a reduction in the overall claims volume due to employers implementing workplace sa
Employers were also more aggressive in seeking early intervention services which the Company and the Com
offer, decreasing the length of a claim and decreasing the need for on-site case management services. The rest
revenues was attributable to a decrease in demand for the Company s network solution services, primarily de
(independent medical examination) and MRI services.

Cost of Revenue

The Company s cost of revenues consist of direct expenses, costs directly attributable to the generation of rev
indirect costs which are incurred in the field to support the operations in the field offices which generate the re
costs are primarily case manager salaries, bill review analysts, related payroll taxes and fringe benefits, and co
(independent medical examination), prescription drugs, and MRI providers. Most of the Company s revenues
offices which provide both patient management services and network solutions services. The largest of the fiel
are manager salaries and bonus, account executive base pay and commissions, administrative and clerical supp
personnel, PPO network developers, related payroll taxes and fringe benefits, office rent, and telephone expen

44% of the costs incurred in the field are field indirect costs which support both the patient management servic solutions operations of the Company s field operations.

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Change in Cost of Revenue

Fiscal 2007 Compared to Fiscal 2006

The Company s cost of revenues decreased from $221 million in fiscal 2006 to $209 million in fiscal 2007, a
$12.3 million. The decrease in cost of revenues was primarily attributable to the decrease in the labor intensiv
associated with the patient management revenue noted above. The Company reduced its field employee headc
decreased. The number of the Company s case managers decreased from just over 814 at March 31, 2006 to a
at March 31, 2007. Consequently, approximately one half of the decrease in cost of revenues is attributable to
direct labor costs. The Company has been working to reduce direct labor costs in response to the reduction in
Company s services resulting from the national decline in workplace injuries.

The largest factor contributing to the decrease in the cost of revenues was a decrease in professional salaries b
from $64.1 million in the fiscal 2006 to $58.2 million in fiscal 2007. This decrease was primarily attributable
number of case managers noted above. Additionally, the provider costs for the Company s CareIQ services d
volume of activity decreased. The Company improved its operating productivity primarily in the network solu
business due to enhancements in the Company s bill review software. The potential increase in costs to attrac
qualified employees as noted in the risk factors may cause a material increase in labor costs in the future.

Fiscal 2006 Compared to Fiscal 2005

The Company s cost of revenues decreased from $246 million in fiscal 2005 to $221 million in fiscal 2006, a
or $25 million. The decrease in cost of revenues was primarily attributable to the decrease in revenues noted a
Company reduced its field employee headcount as revenue decreased. Approximately one quarter of the decre
attributable to a decrease in direct labor costs of $6.3 million. The Company has worked to reduce direct labor
to the reduction in demand for the Company s services resulting from the soft national labor market. The Con
experienced lower direct costs for MRI, IME and prescription drug patient management services of $2.7 millio
and $1.3 million, respectively, in fiscal 2006. The decreases in these costs are directly attributable to related d
respective services.

The largest components of the field indirect costs and changes from fiscal 2005 to fiscal 2006 were: manager s
experienced a decrease of $1.5 million; and clerical salaries, which decreased by $2.5 million. The Company h
to decrease indirect labor costs in response to the reduction in demand for the Company s services and corres
direct labor, but there can be no assurance that the Company will be successful in doing so.

General and Administrative Costs

During fiscal 2005, 2006 and 2007, approximately 62%, 59%, and 62%, respectively, of general and administ
consisted of corporate systems costs, which include the corporate systems support, implementation and trainin
development, national information technology (IT) strategy and planning, depreciation of the hardware costs i
corporate offices and backup data center, the Company s national wide area network, and other systems relat
Company includes all IT related costs managed by the corporate office in general and administrative whereas
costs are included in the cost of revenue. The remaining general and administrative costs consist of national m
sales support, corporate legal, corporate insurance, human resources, accounting, product management, new b
development, and other general corporate expenses.

Change in General and Administrative Costs

Fiscal 2007 Compared to Fiscal 2006

General and administrative expense increased $5.8 million from $29.6 million in fiscal 2006 to $35.4 million i
General and administrative expense increased as a percentage of revenue by 1.8% from 11.1% of revenue in fi
12.9% of revenue in fiscal 2007. The Company s systems expenses increased $4.1 million,

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or 24.1%, from fiscal 2006 to fiscal 2007. The increase was primarily related to increased expenditures in nati
infrastructure, planning, development, and programming costs. Given the importance the Company places on
software, it is possible that these costs may continue to increase. In addition, auditing and consulting fees attri
requirements of the Sarbanes-Oxley Act of 2002 increased by $1.5 million. This increase was partially offset b
$0.5 million in the Company s legal costs.

The increase in cost due to the development and maintenance of software products and the implementation an
new technologies to remain competitive could have a material impact on the Company in the future. Likewise
exposure to litigation, successful lawsuits and increasing costs of insurance could have material effects as wel

Fiscal 2006 Compared to Fiscal 2005

General and administrative expense increased $1.5 million from $28.1 million in fiscal 2005 to $29.6 million i
General and administrative expense increased as a percentage of revenue by 1.4% from 9.7% of revenue in fis
of revenue in fiscal 2006. The increase was primarily related to increased expenditures in auditing and consult
attributable to the requirements of the Sarbanes-Oxley Act of 2002. The Company s accounting and legal cos
$1.7 million. This increase was partially offset by a decrease of $0.6 million in the Company s marketing cos
included in general and administrative costs, fell as a percentage of general and administrative costs even thou
in absolute dollars, remained similar to fiscal year 2005.

Income Tax Provision

The Company s income tax expense for fiscal 2005, 2006, and 2007 was $6 million, $6 million, and $12 mill
The Company s income tax expense in fiscal 2007 increased primarily due to the increase in income before in
fiscal 2007. The effective income tax rates for fiscal 2005, 2006, and 2007 were 38%, 38%, and 39% respecti
differed from the statutory federal tax rate of 35.0% primarily due to state income taxes and certain non-deduc

Liquidity and Capital Resources

The Company has historically funded its operations and capital expenditures primarily from cash flow from o
lesser extent, stock option exercises. The Company s net accounts receivables have historically averaged bel
average sales. Property, net of accumulated depreciation, has averaged approximately 10% or less of annual re
historical ratios of investments in assets used in the business has allowed the Company to generate sufficient c
repurchase $154 million of its common stock during the past ten fiscal years, without incurring debt, on cumu
of $158 million.

The Company believes that cash from operations, existing working capital, and funds from the exercise of sto
to employees are adequate to fund existing obligations, repurchase shares of the Company s common stock, i
services and continue to develop healthcare-related businesses. The Company regularly evaluates cash require
operations and commitments, and for capital acquisitions and other strategic transactions. The Company may
additional funds for these purposes, either through debt or additional equity financings, the sale of investment
otherwise, as appropriate. There can be no assurance, however, that such additional funds would be available i
the times and on terms favorable to the Company, or at all.

Net working capital was $35 million at both March 31, 2006 and March 31, 2007. There were nominal increas
accounts receivable offset by an increase in accrued liabilities.

As of March 31, 2007, the Company had $15 million in cash and cash equivalents, invested primarily in short-
liquid investments with maturities of 90 days or less.

In April 2003, the Company entered into a credit agreement with a financial institution to provide borrowing c
$5 million. In March 2005, the Company s Board of Directors authorized an increase in the credit agreement
$10 million. This agreement expired in September 2005 and the Company expects to

renew this line of credit in June 2007. Borrowings under the expired agreement bore interest, at the Company fluctuating LIBOR-based rate plus 1.25% or at the financial institution s prime lending rate.

On June 1, 2007 (the Closing Date), CorVel Enterprise Comp, Inc., a wholly-owned subsidiary of CorVel C Company), acquired all the issued and outstanding shares of capital stock of The Schaffer Companies, Ltd. administrator headquartered in Maryland (Schaffer), for an initial cash payment of $12 million to the Schaf pursuant to a Stock Purchase Agreement entered into as of May 31, 2007 by and among CorVel Enterprise Co and the Schaffer shareholders (the Acquisition). The Schaffer shareholders also have the potential to receiv to an additional $3 million in a cash earnout based upon the revenue collected by Schaffer s business during t after the Closing Date, which earnout may be prepaid by the Company at its election at any time and is also su if any individual Schaffer shareholder violates the terms of the non-competition agreements executed by each shareholders as of the Closing Date.

The acquisition is expected to allow the Company to expand its service capabilities as a third party administra claims processing services along with patient management services and network solutions services.

Management believes that the cash balance at March 31, 2007 along with anticipated internally generated fund sufficient to meet the Company s expected cash requirements for at least the next twelve months.

Operating Cash Flows

Fiscal 2007 Compared to Fiscal 2006

Net cash provided by operating activities increased from $29 million in fiscal 2006 to $30 million in fiscal 200 cash provided by operations was primarily due to an increase in net income from $10 million in fiscal 2007 to fiscal 2006. This increase is due to the increase in revenue and decrease in cost of revenue as described above.

Fiscal 2006 Compared to Fiscal 2005

Net cash provided by operating activities increased from $26 million in fiscal 2005 to $29 million in fiscal 200 cash provided by operations was primarily due to the decrease in net accounts receivable from $46 million at M $40 million at March 31, 2006. This decrease in accounts receivable is primarily due to the decrease in revenu $291 million in fiscal 2005 to $267 million in fiscal 2006. Additionally, the decrease in net accounts receivabl decrease in net days sales outstanding from 57 days at March 31, 2005 to 51 days at March 31, 2006.

Investing Activities

Fiscal 2007 Compared to Fiscal 2006

Net cash flow used in investing activities increased from $8 million in fiscal 2006 to $21 million in fiscal 2007 investing activity is primarily due to a disbursement of $12 million for the acquisition of certain assets and lial Hazelrigg Risk Management Services in January 2007 as noted above. The Company expects future expenditu and equipment to increase if revenues increase. As noted above, in June 2007, the Company spent $12 million stock of The Schaffer Companies.

Fiscal 2006 Compared to Fiscal 2005

Net cash flow used in investing activities decreased from $12 million in fiscal 2005 to $8 million in fiscal 200 investing activity is primarily due to the reduction in the volume of business and the investment in the prior ye expects future expenditures for property and equipment to increase if revenues increase.

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Financing Activities

Fiscal 2007 Compared to Fiscal 2006

Net cash flow used in financing activities decreased from $16 million in fiscal 2006 to $9 million in fiscal 200
cash flow used in financing activities was primarily due to cash proceeds from the Company s stock option ar
purchase plan increasing from $3 million in fiscal 2006 to $10 million in fiscal 2007. This increase was offset
of shares of the Company s common stock. In fiscal 2006, the Company repurchased $19 million of common
(1,253,008 shares, at an average price of $14.94 per share). In fiscal 2007, the Company repurchased $22 mill
stock (708,666 shares, at an average price of $30.88 per share).

If the Company continues to generate cash flow from operating activities, the Company may continue to repur
common stock on the open market, if authorized by the Company s Board of Directors, or seek to identify oth
acquire. In June 2006, the Board of Directors increased the number of shares authorized to be repurchased ove
repurchase program by an additional 1,500,000 shares to 12,150,000 shares, as adjusted for three-for-two stoc
of a 50% stock dividend distributed on December 8, 2006 to shareholders of record on November 20, 2006. Th
historically used cash provided by operating activities and from the exercise of stock options to repurchase sto
may use some of the $15 million of cash on the balance sheet at March 31, 2007 to repurchase additional share

Fiscal 2006 Compared to Fiscal 2005

Net cash flow used in financing activities increased from $14 million in fiscal 2005 to $16 million in fiscal 20
cash flow used in financing activities was primarily due to the increased amount spent to repurchase shares of
common stock. In fiscal 2005, the Company repurchased $17 million of common Stock (1,037,580 shares, at a
$16.58 per share). In fiscal 2006, the Company repurchased $19 million of Common Stock (1,253,008 shares,
price of $14.94 per share). Cash proceeds from the Company s stock option and employee stock purchase pla
both fiscal 2005 and fiscal 2006. If the Company continues to generate cash flow from operating activities, the
continue to repurchase shares of its common stock on the open market, if authorized by the Company s Boarc
seek to identify other businesses to acquire.

Contractual Obligations

The following table set forth our contractual obligations at March 31, 2007, which are future minimum lease p
under non-cancelable operating leases:

			For the Fiscal Years Ended March 3	
	Total	**2008**	**2009 2010**	**2011 2012**
Operating Leases	$ 33,649,000	$ 11,141,000	$ 14,911,000	$ 6,466,000

Inflation. The Company experiences pricing pressures in the form of competitive prices. The Company is also
rising costs for certain inflation-sensitive operating expenses such as labor and employee benefits, and facility
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 Securities and Exchange Com
However, from time to time the Company enters into certain types of contracts that contingently require the C
indemnify parties against third-party claims. The contracts primarily relate to: (i) certain contracts to perform s
which the Company may provide customary indemnification to the purchases of such services; (ii) certain real
under which the Company may be required to indemnify property owners for environmental and other liabiliti
claims arising from the Company s use of the applicable premises; and (iii) certain agreements with the Comp
directors and employees, under which the Company may be required to indemnify such persons for liabilities a
relationship with the

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Company. Additionally, the Company, as noted above, may pay an additional $2.5 million on the purchase of additional $3.0 million on the purchase of Schaffer contingent upon certain performance criteria being met.

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

Critical Accounting Policies

The SEC defines critical accounting policies as those that require application of management s most difficult, complex judgments, often as a result of the need to make estimates about the effect of matters that are inheren may change in subsequent periods.

The following is not intended to be a comprehensive list of our accounting policies. Our significant accounting fully described in Note A to the Consolidated Financial Statements. In many cases, the accounting treatment o transaction is specifically dictated by accounting principles generally accepted in the United States of America management s judgment in their application. There are also areas in which management s judgment in select alternative would not produce a materially different result.

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

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

Cost of revenues: Cost of services consists primarily of the compensation and fringe benefits of field personn managers, medical bill analysts, field case managers, telephonic case managers, systems support, administrativ account managers and account executives and related facility costs including rent, telephone and office suppli the costs associated with these additional personnel and facilities have been the most significant factor driving Company s cost of services. Local managed and incurred IT costs are charged to cost of revenues whereas th managed at the corporate offices are charged to general and administrative expense.

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

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

There has been no material change in the net reserve balance during the past three fiscal years. No one custom
10% or more of accounts receivable at March 31, 2005, 2006, and 2007.

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Goodwill and Long-Lived Assets: Goodwill arising from business combinations represents the excess of the p the estimated fair value of the net assets of the acquired business. Pursuant to SFAS No. 142, Goodwill and C Assets, goodwill is tested annually for impairment or more frequently if circumstances indicate the potential Also, management tests for impairment of its intangible assets and long-lived assets on an ongoing basis and v changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company conducted at a company-wide level. The measurement of fair value is based on an evaluation of future discour and is further tested using a multiple of earnings approach. In projecting the Company s cash flows, managem industry growth rates and trends and cost structure changes. Based on its tests and reviews, no impairment of i intangible assets or other long-lived assets existed at March 31, 2007. However, future events or changes in cu circumstances could affect the recoverability of the carrying value of goodwill and long-lived assets. Should a impaired, an impairment loss would be recognized to the extent the carrying value of the asset exceeded its est value.

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

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

Share-Based Compensation: Effective April 1, 2006, the Company adopted the provisions of SFAS No. 123R Payment, which establishes accounting for equity instruments exchanged for employee services. Under the p SFAS No. 123R, share-based compensation cost is measured at the grant date, based on the calculated fair val and is recognized as an expense over the employee s requisite service period (generally the vesting period of Prior to April 1, 2006, the Company accounted for share-based compensation to employees in accordance wit Accounting for Stock Issued to Employees, and related interpretations. The company also followed the disc of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accountin Compensation Transition and Disclosure. The Company elected to employ the modified prospective transi provided by SFAS No. 123R and, accordingly, financial statement amounts for the prior periods presented hav restated to reflect the fair value method of expensing share-based compensation.

For the year ended March 31, 2007, the Company recorded share-based compensation expense of $1,258,000. compensation expense recognized in fiscal 2007 is based on awards ultimately expected to vest; therefore, it h for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, subsequent periods if actual forfeitures differ from those estimates. In the pro forma information presented for fiscal 2007, the Company accounted for forfeitures as they occurred.

For the fiscal year ended March 31, 2007, the Company s adoption of SFAS No. 123R reduced the Company
taxes by $1,258,000 and net income was reduced by $767,000. Basic and diluted earnings per share

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were each reduced by $0.05 for the year ended March 31, 2007. The adoption of SFAS No. 123R did not affec

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input as estimate the fair value of stock options include the exercise price of the award, the expected option term, the e of the Company s stock over the option s expected term, the risk-free interest rate over the option s term, an expected annual dividend yield. The Company s management believes that the valuation technique and the ap develop the underlying assumptions are appropriate in calculating the fair values of the Company s stock opti fiscal 2007. Estimates of fair value are not intended to predict actual future events or the value ultimately reali who receive equity awards.

The key input assumptions that were utilized in the valuation of the stock options granted during the fiscal yea 2007 are summarized in the table below.

Expected option term(1)	
Expected volatility(2)	
Risk-free interest rate(3)	
Expected annual dividend yield	

(1) The expected option term is based on the Company s historical experience.

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

(3) The risk-free interest rate is based on the implied yield on five year United States Treasury bills on the d

Recently Issued Accounting Standards

In June 2006, the FASB issued Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income interpretation of FASB Statement No. 109, Accounting for Income Taxes . This standard creates a comprehen address accounting for uncertainty in tax positions. FIN No. 48, clarifies the accounting for income taxes, by p minimum recognition threshold a tax position is required to meet before being recognized for financial statem also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in int disclosure and transition. The adoption of FIN No. 48 will be effective for fiscal periods beginning after Decer The Company adopted FIN No. 48 as of April 1, 2007. Management is currently evaluating the statement to d any, impact it will have on the Company s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurem does not require any new fair value measurements, but provides guidance on how to measure fair value by pro hierarchy used to classify the source of the information. SFAS 157 is effective for financial statements issued beginning after November 15, 2007, and the interim periods within those years. The Company is currently ana of adopting SFAS 157.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Lia an Amendment of FASB Statement No. 115 (SFAS 159), which permits entities to measure many financi certain other items at fair value. The objective is to improve financial reporting by providing entities with the o mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without ha complex hedge accounting provisions. SFAS 159 is effective as of the beginning of fiscal years after Novemb

Company is currently evaluating the impact that SFAS 159 will have on its consolidated financial position, res
and cash flows as of its adoption in fiscal 2008.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
CorVel Corporation

We have audited the accompanying consolidated balance sheet of CorVel Corporation (the Company) as of the related statements of income, stockholders equity, and cash flows for year then ended. In connection with consolidated financial statements, we have also audited the financial statement schedule for the year ended Ma also have audited management s assessment, included in Management s Report on Internal Control Over Fin the Company did not maintain effective internal control over financial reporting as of March 31, 2007, based c established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organization Commission (COSO). The Company s management is responsible for these financial statements, for maint internal control over financial reporting, and for its assessment of the effectiveness of internal control over fina Our responsibility is to express an opinion on these financial statements, an opinion on management s assessm opinion on the effectiveness of the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Boar Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statements are free of material misstatement and whether effective internal control over financial reporting wa material respects. Our audit of the financial statements included examining, on a test basis, evidence supportin disclosures in the financial statements, assessing the accounting principles used and significant estimates made and evaluating the overall financial statement presentation. Our audit of internal control over financial reportin obtaining an understanding of internal control over financial reporting, evaluating management s assessment, evaluating the design and operating effectiveness of internal control, and performing such other procedures as necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance re reliability of financial reporting and the preparation of financial statements for external purposes in accordance accepted accounting principles. A company s internal control over financial reporting includes those policies (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to p of financial statements in accordance with generally accepted accounting principles, and that receipts and expe company are being made only in accordance with authorizations of management and directors of the company reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstate projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become because of changes in conditions, or that the degree of compliance with the policies or procedures may deterio

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than likelihood that a material misstatement of the annual or interim financial statements will not be prevented or d following material weaknesses have been identified and included in management s assessment:

> The Company did not maintain an effective control environment. Specifically, (i) the Company did no Board of Directors committees evaluated its performance against the functions mandated by their ass (ii) the lines of responsibilities within the Company s accounting and reporting function do not suppo over financial reporting, (iii) the Company did not maintain sufficient anti-fraud controls, such as an e independent whistleblower program, effective human resource procedures, such as background investi

consistent performance reviews for key personnel, effective communication regarding performance ex
ensuring adequate

understanding and reinforcement of the code of conduct and (iv) the Company failed to maintain a suf complement of skilled personnel in the areas of accounting and financial reporting.

The Company did not maintain proper segregation of duties. Specifically, proper segregation of duties expenditures, accounts payable, payroll and cash disbursements was not maintained. Our audit identifi instances where various employees were responsible for initiating, recording, and/or approving transac custody of assets.

Effective controls over income tax accounting were not maintained by the Company. Specifically, con designed and in place to ensure that: (i) calculations, assumptions, exposures, estimates, and disclosure reviewed, (ii) temporary and permanent book to tax differences were properly identified, (iii) deferred recoverable, (iv) all tax-related accounts, including the income tax provision rates and pre-tax income, reconciled to the trial balance and tax returns, (v) all quarterly tax payments were accurately tracked a (vi) accounting personnel possessed sufficient knowledge with respect to U.S. Generally Accepted Ac Principles in this area.

The Company did not maintain enough skilled accounting resources supporting the financial close and processes to ensure (i) changes and entry to spreadsheets utilized in the financial reporting process we reviewed, (ii) significant estimates and judgments were adequately supported, reviewed, approved and actual experiences, (iii) effective and timely analysis and reconciliation of significant accounts, and (iv of period close entries and procedures.

The Company did not maintain adequate controls to ensure the proper inclusion of out-of-period invoi goods and services received, and therefore, the completeness of accounts payable.

The Company did not maintain adequate controls to ensure that compensation expense associated with grants was recognized in a manner consistent with the performance conditions of Statement of Financi Standards No. 123 (revised 2004), Share-based Payment. Additionally, detective controls over certa the Company s stock option accounting software did not operate effectively.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied the Company s 2007 consolidated financial statements and does not affect our report on such financial statem

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidate position of the Company as of March 31, 2007, and the consolidated results of its operations and its cash flow ended in conformity with accounting principles generally accepted in the United States of America. Also, in o related 2007 information in the financial statement schedule, when considered in relation to the basic consolid statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in management s assessment that the Company did not maintain effective internal control over financial reporti 2007, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Fr* the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Furthermore, in our op did not maintain, in all material respects, effective internal control over financial reporting as of March 31, 20 criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Orga Treadway Commission (COSO).

As discussed in Note A to the consolidated financial statements, on April 1, 2006, the Company adopted State Accounting Standards No. 123 (revised 2004), Share-based Payment.

/s/ HASKELL & WHITE LLP

Irvine, California
June 14, 2007

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
CorVel Corporation

We have audited the accompanying consolidated balance sheet of CorVel Corporation (the Company) as of M
the related consolidated statements of income, stockholders equity, and cash flows for of the years ended Ma
2005. These financial statements are the responsibility of the Company s management. Our responsibility is t
opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Boar
Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the f
statements are free of material misstatement. An audit includes examining, on a test basis, evidence supportin
disclosures in the financial statements. An audit also includes assessing the accounting principles used and sig
made by management, as well as evaluating the overall financial statement presentation. We believe that our a
reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, t
financial position of CorVel Corporation as of March 31, 2006, and the consolidated results of its operations a
cash flows for the years ended March 31, 2006 and 2005 in conformity with accounting principles generally a
United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statemen
whole. The accompanying Schedule II for the years ended March 31, 2006 and 2005 of CorVel Corporation is
purposes of additional analysis and is not a required part of the basic consolidated financial statements. This s
subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in
fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

/s/ GRANT THORNTON LLP

Portland, Oregon
June 28, 2006

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CORVEL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Years Ended Marc	
	2005	2006
REVENUES	$ 291,000,000	$ 266,504,000
Cost of revenues	246,341,000	221,060,000
Gross profit	44,659,000	45,444,000
General and administrative	28,144,000	29,590,000
Income before income tax provision	16,515,000	15,854,000
Income tax provision	6,358,000	6,101,000
NET INCOME	$ 10,157,000	$ 9,753,000
Net income per share:		
Basic	$ 0.65	$ 0.67
Diluted	$ 0.64	$ 0.67
Weighted average shares outstanding:		
Basic	15,629,000	14,534,000
Diluted	15,780,000	14,592,000

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION

CONSOLIDATED BALANCE SHEETS

		March 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$	14,206,000
Accounts receivable (less allowance for doubtful accounts of $3,487,000 in 2006 and $3,510,000 in 2007)		39,521,000
Prepaid expenses and taxes		2,221,000
Deferred income taxes		4,521,000
Total current assets		60,469,000
Property and equipment, net		26,459,000
Goodwill		12,620,000
Other intangible assets		
Non-current deferred income taxes and other assets		550,000
	$	100,098,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts and taxes payable	$	13,712,000
Accrued liabilities		12,160,000
Total current liabilities		25,872,000
Deferred income taxes		6,190,000
Commitments and Contingencies (Notes H, K,and L)		
Stockholders Equity		
Common stock, $.0001 par value: 30,000,000 shares authorized; 24,776,080 (14,125,350, net of Treasury shares) and 25,320,089 shares (13,960,693, net of the Treasury shares) issued and outstanding in 2006 and 2007, respectively		2,000
Paid-in capital		61,084,000
Treasury stock, at cost (10,650,730 shares in 2006 and 11,359,397 shares in 2007)		(132,205,000)
Retained earnings		139,155,000
Total stockholders equity		68,036,000
	$	100,098,000

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
Fiscal Years Ended March 31, 2005, 2006, and 2007

	Common Shares	Stock Amount	Paid-in-Capital	Treasury Shares	Treasury Stock	Retained Earnings
Balance March 31, 2004	24,244,656	$ 2,000	$ 54,008,000	(8,360,142)	$ (96,281,000)	$ 119,245,00
Stock issued under employee stock purchase plan	73,325		1,043,000			
Stock issued under stock option plan, net of shares repurchased	189,517		1,746,000			
Income tax benefits from stock option exercises			873,000			
Purchase of treasury stock				(1,037,580)	(17,200,000)	
Net income						10,157,00
Balance March 31, 2005	24,507,498	2,000	57,670,000	(9,397,722)	(113,481,000)	129,402,00
Stock issued under employee stock purchase plan	52,647		658,000			
Stock issued under stock option plan, net of shares repurchased	215,936		2,337,000			
Income tax benefits from stock option exercises			419,000			

Purchase of treasury stock				(1,253,008)	(18,724,000)	
Net income						9,753,00
Balance March 31, 2006	24,776,081	2,000	61,084,000	(10,650,730)	(132,205,000)	139,155,00
Stock split in the form of 50% stock dividend		1,000	(1,000)			
Stock issued under employee stock purchase plan	14,896		371,000			
Stock issued under stock option plan, net of shares repurchased	529,113		9,250,000			
Income tax benefits from stock option exercises			3,592,000			
Stock-based compensation expense			1,258,000			
Purchase of treasury stock				(708,667)	(21,886,000)	
Net income						18,576,00
Balance March 31, 2007	25,320,090	$ 3,000	$ 75,554,000	(11,359,397)	$ (154,091,000)	$ 157,731,00

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended Marc	
	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 10,157,000	$ 9,753,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,085,000	10,940,000
Loss on write down or disposal of property or capitalized software	238,000	26,000
Stock-based compensation expense		
Tax benefits from stock option exercises	873,000	419,000
Provision for doubtful accounts	2,355,000	3,713,000
Provision (benefit) for deferred income taxes	1,787,000	(1,474,000)
Changes in operating assets and liabilities:		
Accounts receivable	(2,428,000)	2,377,000
Prepaid expenses and taxes	1,472,000	1,670,000
Other assets	76,000	(147,000)
Accounts and taxes payable	1,528,000	1,419,000
Accrued liabilities	(788,000)	48,000
Net cash provided by operating activities	26,355,000	28,744,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of business, net of cash acquired	(80,000)	
Purchases of property and equipment	(11,560,000)	(7,754,000)
Net cash used in investing activities	(11,640,000)	(7,754,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from employee stock purchase plan	1,043,000	658,000
Proceeds from exercise of stock options	1,746,000	2,337,000
Tax benefits from stock option exercises		
Purchase of treasury stock	(17,200,000)	(18,724,000)
Net cash used in financing activities	(14,411,000)	(15,729,000)
Net increase in cash and cash equivalents	304,000	5,261,000
Cash and cash equivalents at beginning of year	8,641,000	8,945,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,945,000	$ 14,206,000
Non-cash items:		
Income taxes paid	$ 2,711,000	$ 6,624,000
Interest expense	$ 3,000	$ 1,000

See accompanying notes to consolidated financial statements.

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007

Note A Summary of Significant Accounting Policies

Organization: CorVel Corporation (CorVel or the Company), incorporated in Delaware in 1987, provides ser programs nationwide that are designed to enable insurance carriers, third party administrators and employers v programs to administer, manage and control the cost of workers compensation and other healthcare benefits.

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

Use of Estimates: The preparation of financial statements in conforming with accounting principles generally United States of America requires management to make estimates and assumptions that affect the amounts rep accompanying financial statements. Actual results could differ from those estimates. Significant estimates incl for doubtful accounts, accrual for income taxes, and accrual for self-insurance reserves.

Cash and Cash Equivalents: Cash and cash equivalents consist of short-term highly-liquid investments with r 90 days or less when purchased.

Fair Value of Financial Instruments: The carrying amounts of the Company s financial instruments (i.e. cash receivable, accounts payable, etc.) approximate their fair values at March 31, 2006 and 2007.

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

Accounts Receivable: The majority of the Company s accounts receivable is due from companies in the prop insurance industries. Credit is extended based on evaluation of a customer s financial condition and, generally required. Accounts receivable are due within 30 days and are stated at amounts due from customers net of an a doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. T determines its allowance by considering a number of factors, including the length of time trade accounts recei the Company s previous loss history, the customer s current ability to pay its obligation to the Company and general economy and the industry as a whole. The Company writes off accounts receivable, along with sales a of revenues when they become uncollectible. Accounts receivable includes $2,883,000 and $3,020,000 of unb March 31, 2006 and 2007, respectively. Unbilled receivables represent the revenue for the work performed fo been invoiced to the customer. Unbilled receivables are generally invoiced within the following month. No on accounted for 10% or more of accounts receivable at March 31, 2006, and 2007.

Concentrations of Credit Risk: The Company performs periodic credit evaluations of its customers financial not require collateral. No single customer accounted for more than 10% of accounts receivable in 2006 or 200 of the Company s customers are payors of workers compensation expense and property and casualty insuranc companies, third party administrators, self-insured employers and government entities. Receivables are genera 30 days. Credit losses relating to customers in the workers compensation insurance industry consistently hav

management s expectations. Virtually all of the Company s cash is invested in financial institutions in amour
FDIC insurance levels.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note A Summary of Significant Accounting Policies (Continued)

Property and Equipment: Additions to property and equipment are recorded at cost. The Company provides f property and equipment using the straight-line method by charges to operations in amounts that allocate the co assets over their estimated lives as follows:

Asset Classification	Estimated Useful Life
Leasehold Improvements	The shorter of five years or the life of lease
Furniture and Equipment	Five to seven years
Computer Hardware	Three to five years
Computer Software	Three to five years

The Company capitalized software development costs intended for internal use. The Company accounts for in software costs in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Ob Internal Use*. Capitalized software development costs, intended for internal use, totaled $9,057,000 (net of $21 accumulated amortization) and $6,897,000, (net of $25,570,000 in accumulated amortization) as of March 31, respectively. These costs are included in computer software in property and equipment and are amortized over years.

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

Goodwill: The Company accounts for its business combinations in accordance with Statement of Financial Ac Standards (SFAS) No. 141, Business Combinations, which requires that the purchase method of account business combinations and addresses the criteria for initial recognition of intangible assets and goodwill. In ac SFAS No. 142, Goodwill and Other Intangibles , goodwill and other intangible assets with indefinite lives a are tested for impairment annually, or more frequently if circumstances indicate the possibility of impairment. value of goodwill or an intangible asset exceeds its fair value, an impairment loss shall be recognized. The Co impairment test is conducted company-wide and the fair value is compared to its carrying value. The measurem is based on an evaluation of future discounted cash flows and is further tested using a multiple of earnings app years presented, the Company s tests indicated that no impairment existed and, accordingly, no loss has been Goodwill amounted to $12,620,000, (net of accumulated amortization of $2,069,000) at March 31, 2006 and $ of accumulated amortization of $2,069,000) at March 31, 2007.

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

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

Accounting for Income Taxes: The Company provides for income taxes in accordance with provisions specifi
SFAS No. 109, Accounting for Income Taxes. Accordingly, deferred income tax assets and liabilities are co
differences between the financial statement and tax bases of assets and liabilities. These differences will result
deductible amounts in the future, based on tax laws and rates applicable to the periods in which the differences
affect taxable income. The ultimate realization of deferred tax

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note A Summary of Significant Accounting Policies (Continued)

assets is dependent upon the generation of future taxable income during the periods in which temporary differe deductible. In making an assessment regarding the probability of realizing a benefit from these deductible diff management considers the company s current and past performance, the market environment in which the co planning strategies and the length of carryforward periods for loss carryforwards, if any. Valuation allowance when necessary to reduce deferred tax assets to amounts that are more likely than not to be realized. Further, t provides for income tax issues not yet resolved with federal, state and local tax authorities.

Share-Based Compensation: Prior to fiscal 2007, the Company accounted for its stock-based compensation p recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Account Employees, and related interpretations. The Company adopted the provisions of SFAS No. 123R, Share-Ba April 1, 2006. The Company elected to employ the modified prospective transition method and, accordingly, f amounts for prior periods presented have not been restated to reflect the fair value method of expensing share- compensation.

Earnings Per Share: Earnings per common share-basic is based on the weighted average number of common outstanding during the period. Earnings per common shares-diluted are based on the weighted average numbe shares and common share equivalents outstanding during the period. In calculating earnings per share, earning the basic and diluted calculations. Weighted average shares outstanding increased for diluted earnings per sha of stock options.

The difference between the basic shares and the diluted shares for each of the three fiscal years ended March 3 and 2007 is as follows:

	Fiscal 2005	**Fiscal 2006**
Basic weighted shares	15,629,000	14,534,000
Treasury stock impact of stock options	151,000	58,000
Diluted weighted shares	15,780,000	14,592,000

All share numbers shown above have been adjusted to reflect the three-for-two stock split in the form of a 50% distributed on December 8, 2006 to shareholders on record on November 20, 2006. During fiscal year 2007, a of 501,000 options were excluded from the weighted shares calculation because the option prices were below market value of the stock during the year.

Stock Split in the form of a stock dividend: In fiscal 2007, the Company declared a three-for-two stock split in 50% stock dividend distributed on December 8, 2006 to shareholders on record on November 20, 2006. All sh numbers in this Form 10-K has been adjusted to reflect this stock split. On December 8, 2006, the Company is 8,369,598 shares as a result of the stock split.

Recent Accounting Pronouncements: In June 2006, the Financial Accounting Standards Board (FASB) issu
No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement I
for Income Taxes . This standard creates a comprehensive model to address accounting for uncertainty in tax
FIN No. 48, clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax p
to meet before being recognized for financial statements. FIN No. 48 also provides guidance on measurement,
classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of I
effective for fiscal periods beginning after December 15, 2006. The Company adopted FIN No. 48 as of April
Management is currently evaluating the statement to determine what, if any, impact it will have on the Compa
financial statements for fiscal 2008.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note A Summary of Significant Accounting Policies (Continued)

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurer does not require any new fair value measurements, but provides guidance on how to measure fair value by pro hierarchy used to classify the source of the information. SFAS 157 is effective for financial statements issued beginning after November 15, 2007, and the interim periods within those years. The Company is currently ana of adopting SFAS 157.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Lia an Amendment of FASB Statement No. 115* (SFAS 159), which permits entities to measure many financial i certain other items at fair value. The objective is to improve financial reporting by providing entities with the mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without ha complex hedge accounting provisions. SFAS 159 is effective as of the beginning of fiscal years after Novemb Company is currently evaluating the impact that SFAS 159 will have on its consolidated financial position, res and cash flows as of its adoption in fiscal 2008.

Note B Stock Options and Stock Based Compensation

Under the Company s Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Optio in effect at March 31, 2007, options for up to 9,682,500 shares (adjusted for the three-for-two stock split in the stock dividend distributed on December 8, 2006 to shareholders of record on November 20, 2006) of the Com stock may be granted to key employees, non-employee directors and consultants at excerise prices not less tha market value of the stock at the date of grant as determined by the Board. Options granted under the Plan may incentive stock options or non-statutory stock options and options granted generally vest 25% one year from d the remaining 75% vesting ratably each month for the next 36 months. The options granted to employees and directors expire at the end of five years and ten years from the date of grant, respectively. Prior to fiscal year 2 had not granted any performance-based stock options under the Plan. In May 2006, however, the Company gr options at fair market value at the date of grant, which will only vest if the Company attains certain earnings p established by the Company s Board of Directors, for calendar years 2008, 2009, and 2010. The Company s results are below the targets established by the Board of Directors. There is no guarantee that the Company wi targets in order for the options to vest. The Company has historically issued new shares to satisfy option exerc issuing shares from treasury stock.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note B Stock Options and Stock Based Compensation (Continued)
All options granted in the three fiscal years ended March 31, 2005, 2006, 2007 were granted at fair market val
non-statutory stock options. Summarized information for all stock options for the past three fiscal year follows

	2005	2006
Options outstanding beginning of the year	1,491,712	1,454,831
Options granted	218,625	233,100
Options exercised	(198,684)	(228,654)
Options cancelled/forfeited	(56,822)	(189,554)
Options outstanding end of year	1,454,831	1,269,723
During the year, weighted average exercised price of:		
Options granted	$ 15.60	$ 13.65
Options exercised	$ 9.87	$ 11.31
Options forfeited	$ 21.25	$ 16.78
At the end of the year		
Price range of outstanding options	$ 5.67-$25.83	$ 6.81-$25.83
Weighted average exercise price per share	$ 16.86	$ 17.28
Options available for future grants	949,301	892,254
Exercisable options	960,527	807,306

Effective April 1, 2006, the Company adopted the provisions of SFAS No. 123R, Share-Based Payment, w
accounting for share-based instruments exchanged for employee services. Under the provisions of SFAS No. 1
compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recogn
over the employee s requisite service period (generally the vesting period of the equity grant). Prior to April 1
Company accounted for share-based compensation to employees in accordance with APB No. 25, Accountin
to Employees, and related interpretations. The Company also followed the disclosure requirements of SFAS
Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based C
Transition and Disclosure. The Company elected to employ the modified prospective transition method as pr
SFAS No. 123R and, accordingly, financial statement amounts for the prior periods presented have not been re
the fair value method of expensing share-based compensation.

For the year ended March 31, 2007, the Company recorded share-based compensation expense of $1,258,000.
shows the amounts recognized in the financial statements for the fiscal year ended March 31, 2007.

Cost of revenue
General and administrative

Total cost of stock-based compensation included in income before income tax
Amount of income tax benefit recognized

Amount charged to net income

Effect on basic earnings per share

Effect on diluted earnings per share

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note B Stock Options and Stock Based Compensation (Continued)

The stock compensation expense did not include the cost of the performance based options noted above as the presently not achieving the targeted earnings per share performance. If the Company achieves the earnings per calendar years 2008, 2009, and 2010, the Company will recognize the related expense, based upon the fair val grant, during the period when it is determined that it is probable that the performance options will be earned.

The adoption of SFAS No. 123R did not affect cash flow.

Share-based compensation expense recognized in fiscal 2007 is based on awards ultimately expected to vest; t been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of gran necessary, in subsequent periods if actual forfeitures differ from those estimates. In the pro forma information periods prior to fiscal 2007, the Company accounted for forfeitures as they occurred.

The Company records compensation expense for employee stock options based on the estimated fair value of date of grant using the Black-Scholes option-pricing model with the assumptions included in the table below. uses historical data among other factors to estimate the expected volatility, the expected option life, and the ex rate. The risk-free rate is based on the interest rate paid on a U.S. Treasury issue with a term similar to the esti option. During fiscal 2007 based upon the historical experience of options cancellations, the Company used es rates ranging from 6.3% to 8.9%. Forfeiture rates will be adjusted over the requisite service period when actua or are expected to differ, from the estimate.

The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model. Th weighted average assumptions were used for fiscal years ending March 31, 2005, 2006 and 2007:

	Fiscal 2005	**Fiscal 2006**
Expected volatility	38%	38%
Risk free interest rate	3.4%	4.0%
Dividend yield	0.0%	0.0%
Weighted average option life	4.7 years	4.7 years

For purposes of pro forma disclosures under SFAS 123 for the fiscal year ended March 31, 2007, the estimated share-based awards was assumed to be amortized to expense over the vesting period of the award. There is no presentation for the fiscal year ended March 31, 2007, as the Company adopted SFAS 123R as of April 1, 200 above. The following table illustrates the effect on net income had the Company applied the fair value recogni SFAS 123, Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS 148, Accou Compensation Transition and Disclosure (SFAS 148) for the fiscal years ended March 31, 2005 and Ma

	Fiscal 2005
Net income as reported	$ 10,157,000

Add back: Stock based compensation costs charged to expense		
Deduct: Stock based employee compensation cost, net of taxes		(1,022,000)
Pro forma net income	$	9,135,000
Earnings per share basic		
As reported	$	0.65
Pro forma	$	0.58
Earnings per share diluted		
As reported	$	0.64
Pro forma	$	0.58

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note B Stock Options and Stock Based Compensation (Continued)

The following table summarizes the status of stock options outstanding and exercisable at March 31, 2007:

Range of Exercise Prices	Number of Outstanding Options	Weighted Average Remaining Contractual Life	Outstanding Options Weighted Average Exercise Price	Exercisable Options Number of Exercisable Options
$6.81 to $14.76	282,822	3.27	$ 12.58	102,368
$15.55 to $15.79	307,141	4.37	15.75	21,793
$16.67 to $23.55	295,896	3.64	19.57	172,430
$25.83 to $47.70	135,282	4.07	29.84	19,122
Total	1,021,141	3.81	$ 17.84	315,713

A summary of the status for all outstanding options at March 31, 2006 and March 31, 2007, and changes durin then ended is presented in the table below:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (Years)
Options outstanding, beginning	1,269,723	$ 17.28	
Granted	495,175	20.07	
Exercised	(543,614)	18.31	
Cancelled forfeited	(52,107)	23.79	
Cancelled expired	(148,036)	16.71	
Options outstanding, ending	1,021,141	$ 17.84	3.81
Options vested and expected to vest	912,543	$ 17.87	3.75
Ending exercisable	315,713	$ 17.45	2.75

The weighed average recognition period is 3.05 years. The weighted average valuation of options granted duri
2006, and 2007 was $4.99, $4.40, and $8.38, respectively. The total intrinsic value of options exercised during
was $7,565,000. At March 31, 2007 compensation costs related to unvested options not yet recognized was $4

The Company recognized $9,250,000 of cash receipts and $2,950,000 of tax benefits from the exercise of stoc
fiscal 2007. Unvested options at March 31, 2006 were 462,417. Vested options at March 31, 2006 were 807,3
options were granted during fiscal 2007. Vested options at March 31, 2007 were 315,713. Unvested options at
were 705,428.

Prior to the adoption of SFAS 123R, the Company presented the tax benefit of all tax deductions resulting for
stock options and restricted stock awards as operating activities in the Consolidated Statements of Cash Flows
requires the benefits of tax deductions in excess of grant-date fair value be reported as a financing activity, rat
operating activity.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note C Property and Equipment

Property and equipment consists of the following at March 31, 2006 and 2007:

	2006
Office equipment and computers	$ 44,466,000
Computer software	37,565,000
Leasehold improvements	3,832,000
	85,863,000
Less: accumulated depreciation and amortization	(59,404,000)
	$ 26,459,000

Note D Accrued Liabilities

Accrued liabilities consist of the following at March 31, 2006 and 2007:

	2006
Payroll taxes and related benefits	$ 6,859,000
Self-insurance accruals	3,644,000
Other	1,657,000
	$ 12,160,000

Note E Income Taxes

The income tax provision consists of the following for the three years ended March 31, 2005, 2006 and 2007:

	2005	2006
Current Federal	$ 4,155,000	$ 6,822,000
Current State	416,000	753,000
Subtotal	4,571,000	7,575,000
Deferred Federal	1,624,000	(1,340,000)
Deferred State	163,000	(134,000)

Subtotal	1,787,000	(1,474,000)
	$ 6,358,000	$ 6,101,000

The following is a reconciliation of the income tax provision from the statutory federal income tax rate to the e
the three years ended March 31, 2005, 2006 and 2007:

	2005	**2006**
Income taxes at federal statutory rate (35)%	$ 5,780,000	$ 5,549,000
State income taxes, net of federal benefit	662,000	552,000
Other	(84,000)	
	$ 6,358,000	$ 6,101,000

Income taxes paid totaled $2,711,000, $6,624,000 and $9,736,000 for the years ended March 31, 2005, 2006, a
respectively.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income taxes at March 31, 2006 and 2007 are:

	2006
Deferred income tax assets:	
Accrued liabilities not currently deductible	$ 2,995,000
Allowance for doubtful accounts	1,343,000
Other	183,000
Deferred assets	4,521,000
Deferred income tax liabilities	
Excess of book over tax basis of fixed assets	(5,362,000)
Other	(828,000)
Deferred liabilities	(6,190,000)
Net deferred tax liability	$ (1,669,000)

Prepaid expenses and taxes include $1,162,000 and $954,000 at March 31, 2006 and March 31, 2007, respecti taxes due in the first quarter of the succeeding fiscal year.

Note F Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (ESPP) which was amended by approval of the stockholders in September 2005 to allow employees of the Company and its subsidiaries to purchase shares of the last day of two six-month purchase periods (i.e. March 31 and September 30) at a purchase price which is sale price of shares as quoted on NASDAQ on the last day of such purchase period. Prior to the purchase peric October 1, 2005, the purchase price was equal to 85% of the closing sale price of shares as quoted on NASDA last day of the purchase period, whichever was lower. In September 2005, the shareholders approved to amenc purchase price formula noted above. Employees are allowed to contribute up to 20% of their gross pay. A max 1,425,000 shares has been authorized for issuance under the ESPP, as amended, as adjusted for the three-for-t the form of a 50% dividend distributed on December 8, 2006 to shareholders of record on November 20, 2006 2007, 1,145,081 shares had been issued pursuant to the ESPP. Summarized ESPP information is as follows:

	2005	2006
Employee contributions	$ 1,043,000	$ 658,00
Shares acquired	73,325	52,64
Average purchase price	$ 14.22	$ 12.5

In accordance with FASB Technical Bulletin 97-1, the fiar value of this stock purchase plan has been included
disclosures contained in Note A, Stock Based Compensation Plans.

Note G Treasury Stock

During each of the three fiscal years in the period ended March 31, 2007, the Company continued to repurchas
common stock under a plan originally approved by the Company s Board of Directors in 1996. Including an e
authorized in June 2006, the total number of shares authorized to be repurchased is 12,150,000 shares, as adju
three-for-two stock split in the form of a 50% dividend distributed on December 8, 2006 to shareholders of rec
November 20, 2006. Purchases may be made from time to time

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

depending on market conditions and other relevant factors. The share repurchases for fiscal years ended Marcl
and 2007 and cumulative since inception of the authorization are as follows:

	2005	2006	2007
Shares repurchased	1,037,580	1,253,008	708,667
Cost	$ 17,200,000	$ 18,724,000	$ 21,886,000
Average price	$ 16.58	$ 14.94	$ 30.88

The repurchased shares were recorded as treasury stock, at cost, and are available for general corporate purpos
repurchases were primarily financed from cash generated from operations and from the cash proceeds and inc
from the exercise of stock options.

Note H Commitments and Contingencies

The Company leases office facilities under noncancelable operating leases. Some of these leases contain escal
Future minimum rental commitments under operating leases at March 31, 2007 are $11,141,000 in fiscal 2008
fiscal 2009, $6,121,000 in fiscal 2010, $4,054,000 in fiscal 2011, $2,412,000 in fiscal 2012, $1,131,000 therea
$33,649,000 in the aggregate. Total rental expense of $12,379,000, $12,312,000 and $12,177,000 was chargec
the years ended March 31, 2005, 2006, and 2007, respectively. The cost of leasehold improvements are capita
and amortized over the life of the lease.

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

Note I Retirement Savings Plan

The Company maintains a retirement savings plan for its employees, which is a qualified plan under Section 4
Internal Revenue Code. Full-time employees that meet certain requirements are eligible to participate in the pl
contributions are made annually, primarily at the discretion of the Company s Board of Directors. Contributio
were charged to operations for the fiscal year ended March 31, 2007. There was no employer contribution for
ended March 31, 2005 and March 31, 2006.

Note J Shareholder Rights Plan

During fiscal 1997, the Company s Board of Directors approved the adoption of a Shareholder Rights Plan. T
Rights Plan provides for a dividend distribution to CorVel stockholders of one preferred stock purchase right f
outstanding share of CorVel s common stock under certain circumstances. In April 2002, the Board of Direct
approved an amendment to the Company s existing shareholder rights agreement to extend the expiration dat
February 10, 2012, set the initial price of each right to $118, and enable Fidelity Management & Research Co
affiliates to purchase up to 18% of the shares of common stock of the Company without triggering the stockho
limitations under the stockholder rights agreement remain in effect for all other stockholders of the Company.
designed to assure that all shareholders receive fair and equal treatment in the event of any proposed takeover

and to encourage a potential acquirer to negotiate with the Board of Directors prior to attempting a takeover. T
exercise price of $118 per right, subject to subsequent adjustment. The rights trade with the Company s comm
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 Compa
without the approval of the Board, subject to certain exception, the holders of the rights, other than the acquiri
group, would, under certain circumstances, have the right to purchase additional shares of the Company s co
a market value equal to two times the then-current exercise price of

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Note K Acquisitions and Subsequent Event

In December 2006, the Company s wholly owned subsidiary, CorVel Enterprise Comp Inc., entered into an A Agreement with Hazelrigg Risk Management Services, Inc., a California based provider of integrated medical claims processing and technology services for workers compensation clients, and its affiliated companies (I certain assets and liabilities of Hazelrigg, for an initial cash payment of $12 million. The acquisition represent CorVel s Enterprise Comp service offering in the Southern California marketplace. The seller of Hazelrigg al to receive up to an additional $2.5 million in a cash earnout based upon the revenue collected by the Hazelrigg the one-year period after consummation of the acquisition, which earnout may be accelerated based upon the c certain post-acquisition events. The Company completed the acquisition on January 31, 2007 and paid the init on that date. The results of the acquired business for the period from February 1, 2007 to March 31, 2007 are i Company s results for the quarter and fiscal year ended March 31, 2007.

The following table summarizes the recorded value of the Hazelrigg assets acquired and liabilities assumed at acquisition:

	Life
Accounts receivable, net	
Property and equipment, net	
Covenant not to compete	5 years
Customer contracts	10 years
Customer relationships	10 years
Servicemark	15 years
TPA license	15 years
Goodwill	
Subtotal	
Less: Accounts payable and deferred income	
Total	

The following supplemental unaudited pro forma information presents the combined operating results of the C acquired business during fiscals 2006 and 2007, as if the acquisition had occurred at the beginning of each of t presented. The pro forma information is based on the historical financial statements of the Company and that c business. Amounts are not necessarily indicative of the results that may have been attained had the combinatio at the beginning of the periods presented or that may be achieved in the future.

	Fiscal 2006
Pro forma revenue	$ 281,768,000
Pro forma income before income taxes	$ 18,550,000
Pro forma net income	$ 11,398,000
Pro forma basic earnings per share	$ 0.78
Pro forma diluted earnings per share	$ 0.78

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 2007, the Company s wholly owned subsidiary, CorVel Enterprise Comp Inc., acquired the 100% of t
Schaffer Companies Ltd., (Schaffer) for $12 million. Schaffer is a third party administrator headquartered i
acquisition is expected to allow the Company to expand its service capabilities as a third party administrator a
processing services along with patient management services and network solutions services to an increased cu
sellers of Schaffer have the potential to receive up to an additional $3 million in a cash earnout based upon the
by the Schaffer business during the one-year period after completion of the acquisition. The results of Schaffe
with the Company s results for the quarter ended June 30, 2007. The Company has not completed the purchas
but will do so prior to the quarter ending June 30, 2007.

Note L Line of Credit

In March 2005, the Company, upon authorization by its Board of Directors, entered into a credit agreement wi
institution to provide borrowing capacity of up to $10 million. This agreement expired in September 2005. Ma
to renew the line of credit in June 2007. Borrowings under the expired agreement bore interest, at the Compan
fluctuating LIBOR-based rate plus 1.25% or at the financial institution s prime lending rate. There were no bo
line of credit at March 31, 2005 or during fiscal years ended March 31, 2006 or March 31, 2007.

Note M Quarterly Results (Unaudited)

The following is a summary of unaudited quarterly results of operations for the two years ended March 31, 20

	Revenues	Gross Profit	Net Income	Net Income per Basic Common Share
Fiscal Year Ended March 31, 2006:				
First Quarter	$ 70,667,000	$ 12,004,000	$ 2,810,000	$ .1
Second Quarter	66,343,000	10,873,000	2,211,000	.1
Third Quarter	63,073,000	10,048,000	1,665,000	.1
Fourth Quarter	66,421,000	12,519,000	3,067,000	.2
Fiscal Year Ended March 31, 2007:				
First Quarter	$ 69,762,000	$ 16,327,000	$ 4,640,000	$ .3
Second Quarter	67,329,000	16,396,000	4,823,000	.3
Third Quarter	66,580,000	15,532,000	3,825,000	.2
Fourth Quarter	70,910,000	17,580,000	5,288,000	.3

Note N Segment Reporting

The Company derives the majority of its revenues from providing patient management and network solutions
of workers compensation benefits, automobile insurance claims and health insurance benefits. Patient manag
include utilization review, medical case management, and vocational rehabilitation. Network solutions revenu

schedule auditing, hospital bill auditing, independent medical examinations, diagnostic imaging review servic
provider referral services. In the prior fiscal years, the Company included the revenue from utilization review
solutions revenues. The revenue mix percentages shown below have been adjusted to include utilization revie
management services revenue. The percentages of revenues attributable to patient management and network s
for the fiscal years ended March 31, 2005, 2006, and 2007 are listed below.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Fiscal 2005	Fisca 2006
Patient management services	44.4%	42.
Network solutions services	55.6%	57.
	100.0%	100.

Under SFAS 131, two or more operating segments may be aggregated into a single operating segment for fina purposes if aggregation is consistent with the objective and basic principles of SFAS 131, if the segments have characteristics, and if the segments are similar in each of the following areas: 1) the nature of products and ser nature of the production processes; 3) the type or class of customer for their products and services; and 4) the distribute their products or provide their services. Each of the Company s regions meet these criteria as they p services to similar customers using similar methods of productions and similar methods to distribute their serv Company s regions perform both patient management and network solutions services.

Because the Company meets each of the criteria set forth above and each of our regions have similar economi the Company aggregates its results of operations in one reportable operating segment.

Note O Other Intangible Assets

Other intangible assets consist of the following at March 31, 2007:

Item	Life	Cost	Fiscal 2007 Amortization Expense and Accumulated Amortization at March 31, 2007
Covenant not to compete	5 years	$ 250,000	$ 7,000
Customer contracts	10 years	500,000	7,000
Customer relationships	10 years	500,000	7,000
Servicemark	15 years	250,000	3,000
TPA license	15 years	500,000	6,000
Total		$ 2,000,000	$ 30,000

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EXHIBIT INDEX

Exhibit No.	Title Method of Filing
2.1	Asset Purchase Agreement dated December 15, 2006 by and among the Company s subsidiary, Enterprise Comp, Inc., and Hazelrigg Risk Management Services, Inc., Comp Care, Inc., Medica Services, Inc., and Arlene Hazelrigg. Incorporated herein by reference to Exhibit 2.1 to the Co Form 8-K filed on February 6, 2007.
2.2	Stock Purchase Agreement dated May 31, 2007 by and among the Company s subsidiary, CorV Enterprise Comp, Inc., The Schaffer Companies, Ltd., and Dawn Colwell, Christopher Schaffer, Colwell and Kelly Ribeiro de Sa. Incorporated herein by reference to Exhibit 2.1 to the Compa Form 8-K filed on June 6, 2007.
3.1	Amended and Restated Certificate of Incorporation of the Company Incorporated herein by ref Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended Se 2002 filed on November 14, 2002.
3.2	Amended and Restated Bylaws of the Company Incorporated herein by reference to Exhibit 3. Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 filed o August 14, 2006.
10.1*	Nonqualified Stock Option Agreement between V. Gordon Clemons, the Company and North St with all amendments and addendums thereto Incorporated herein by reference to Exhibit 10.6 Company s Registration Statement on Form S-1 Registration No. 33-40629 initially filed on Ma
10.2*	Supplementary Agreement between V. Gordon Clemons, the Company and North Star Incorpo by reference to Exhibit 10.7 to the Company s Registration Statement on Form S-1 Registration No. 33-40629 initially filed on May 16, 1991.
10.3*	Amendment to Supplementary Agreement between Mr. Clemons, the Company and North Star Incorporated herein by reference to Exhibit 10.5 to the Company s Annual Report on Form 10-I fiscal year ended March 31, 1992 filed on June 29, 1992.
10.4*	Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) Incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K August 9, 2006.
10.5*	Forms of Notice of Grant of Stock Option, Stock Option Agreement and Notice of Exercise Und Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option) Incor herein by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the qu period ended September 30, 2006 filed on November 9, 2006, Exhibits 10.7, 10.8 and 10.9 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 1994 filed on Jun Exhibits 99.2, 99.3, 99.4, 99.5, 99.6, 99.7 and 99.8 to the Company s Registration Statement on (File No. 333-94440) filed on July 10, 1995, and Exhibits 99.3 and 99.5 to the Company s Regi Statement on Form S-8 (File No. 333-58455) filed on July 2, 1998.
10.6*	Employment Agreement of V. Gordon Clemons Incorporated herein by reference to Exhibit 10 Company s Registration Statement on Form S-1 Registration No. 33-40629 initially filed on Ma
10.7*	Restated 1991 Employee Stock Purchase Plan, as amended Incorporated herein by reference to Exhibit 99.1 to the Company s Registration Statement on Form S-8 (File No. 333-128739) filed September 30, 2005.
10.8	Fidelity Master Plan for Savings and Investment, and amendments Incorporated herein by refe Exhibits 10.16 and 10.16A to the Company s Registration Statement on Form S-1 Registration No. 33-40629 initially filed on May 16, 1991.
10.9	

Preferred Shares Rights Agreement, dated as of February 11, 1997, by and between Corvel Corp
and U.S. Stock Transfer Corporation, including the Certificate of Determination, the form of Rig
Certificate and the Summary of Rights attached thereto as Exhibits A, B and C, respectively (Sha
Rights Plan) Incorporated herein by reference to Exhibit 99.1 in the Company s Form 8-K file
February 28, 1997.

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Exhibit No.	Title Method of Filing
10.1	Amended and Restated Preferred Shares Rights Agreement, dated as of April 11, 2002, by and CorVel Corporation and U.S. Stock Transfer Corporation, including the Certificate of Determir Certificate of Amendment of the Certificate of Determination, the form of Rights Certificate (as and the Summary of Rights (as amended) attached thereto as Exhibits A-1, A-2, B and C, respe (Amended Shareholder Rights Plan) Incorporated herein by reference to Exhibit 99.1 in the C Form 8-K filed on May 24, 2002.
10.11*	Employment Agreement effective May 26, 2006 by and between CorVel Corporation and Dan Incorporated herein by reference to Exhibit 10.1 in the Company s Form 8-K filed on May 30,
10.12*	Stock Option Agreement and Acceleration Addendum dated May 26, 2006 by and between Co Corporation and Dan Starck, providing for time vesting Incorporated herein by reference to E in the Company s Form 8-K filed on May 30, 2006.
10.13*	Stock Option Agreement and Acceleration Addendum dated May 26, 2006 by and between Co Corporation and Dan Starck, providing for performance vesting. Incorporated herein by refer Exhibit 10.3 to the Company s Current Report on Form 8-K filed on May 30, 2006.
10.14*	Stock Option Agreement dated May 26, 2006 by and between CorVel Corporation and Scott M providing for performance vesting. Incorporated herein by reference to Exhibit 10.1 to the Co Current Report on Form 8-K filed on June 2, 2006.
21.1	Subsidiaries of the Company Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm, Haskell & White LLP Filed here
23.2	Consent of Independent Registered Public Accounting Firm, Grant Thornton LLP Filed herev
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act Filed herewith.
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act Filed herewith.
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pu 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 Pu Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.

* Denotes management contract or compensatory plan or arrangement.

Confidential treatment was requested for certain confidential portions of this exhibit pursuant to Rule 24b Securities Exchange Act of 1934. In accordance with Rule 24b-2, these confidential portions were omitte exhibit and filed separately with the Securities and Exchange Commission.