ANNUAL REPORT

& FORM 10K

30 YEARS ON NASDAQ

2021

CORVEL

President’s Letter

2020 was not the year any of us would have imagined. It was a year buffeted by a global pandemic, economic upheaval, natural disasters, public demonstrations, civil unrest, and a polarizing election. With the many unprecedented events and uncertainty, it was a time to hold to our mission to serve and make a difference.

We safeguarded our team’s health by transitioning to working from home, worked closely with the partners most impacted by the pandemic to meet their dynamic needs, and adapted our business development model to achieve record new sales. Although many things changed during the year, the CorVel team’s commitment to delivering the service and outcomes our customers have come to expect was unwavering.

While we look forward to seeing the other side of this pandemic, there are positive changes that will endure. Events of the last year acted as a catalyst to advance our systems more aggressively, resulting in exciting progress in the areas of automation, natural language processing, and machine learning, as well as in our suite of services such as virtual care. We also released CogencyIQ℠, an advanced business intelligence platform that provides actionable information for our clients. Full integration affords direct access to all data in the care continuum. This allows insights to be distilled from data accessible by our system.

Before COVID-19, the adoption of telehealth in workers’ compensation was limited. With the pandemic, this method of delivering care has become preferable in many cases to visiting a brick-and-mortar facility. Given the higher patient satisfaction ratings, ease of use, and now the increased familiarity with the process, virtual care will play a more significant role in the new normal. With our integrated model, increased utilization of telehealth will enhance the results we can achieve.

The health market, served by CERiS, continues to grow in importance at CorVel. 2020 brought an increase in strategic partnerships and the introduction of new service offerings such as DRG review. We are leveraging technology across our suite of services to differentiate ourselves in the market further and meet the evolving needs. Systems are becoming more intuitive, allowing the automation of simple tasks and the elevation of work done by our team members, thus increasing the value of our offerings.

We are pleased to celebrate our 30th anniversary on NASDAQ this year. Since our foundation, we have endeavored to make a substantial difference in the lives of our team members, our business partners, and the industry at large, changing how business is conducted and challenging the status quo. We also strive to be a workplace that encourages learning, growth, and advancement, and we are pleased to have been designated by the CorVel team as a Great Place to Work®.

In addition to the acknowledgment from our internal stakeholders, 2020 also brought us two Business Insurance Awards: an Innovation Award for our Virtual Care model, which we started five years ago but which found increased acceptance and adoption during the pandemic, and a TPA Team of the Year Award for work with our partners.

While 2020 has tested our organization, we have emerged stronger and built on our tremendous foundation. I am proud of our team and the agility, grit, and commitment they continually show. I am grateful for our business partners’ continued support and look forward to the opportunities to build on our considerable momentum.

Michael G. Combs

Michael G. Combs
President and CEO

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended March 31, 2021

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 0-19291

CorVel Corporation
(Exact name of registrant as specified in its charter)

Delaware	**33-0282651**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5128 Apache Plume Road, Suite 400	
Fort Worth, Texas	**76109**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (817) 390-1416

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value $0.0001 Per Share	CRVL	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Small reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

As of September 30, 2020, the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant was approximately $784,387,000 based on the closing price per share of $85.43 for the registrant's common stock as reported on the Nasdaq Global Select Market on such date multiplied by 9,181,629 shares (total outstanding shares of 17,908,338 less 8,726,709 shares held by affiliates) of the registrant's common stock which were outstanding on such date. For the purposes of the foregoing calculation only, all of registrant's directors, executive officers and persons known to the registrant to hold ten percent or greater of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of registrant's Common Stock outstanding as of May 24, 2021 was 17,850,728.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Items 10 through 14 of Part III of this Form 10-K, to the extent not set forth herein, is incorporated herein by reference to portions of the registrant's definitive proxy statement for the registrant's 2021 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended March 31, 2021. Except with respect to the information specifically incorporated by reference in this Form 10-K, the registrant's definitive proxy statement is not deemed to be filed as a part of this Form 10-K.

CORVEL CORPORATION

2021 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

In this Annual Report on Form 10-K ("annual report"), the terms "CorVel", "Company", "we", "us", and "our" refer to CorVel Corporation and its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, but not limited to, the statements about our plans, strategies and prospects in Part I, Item 1, "Business", Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this annual report. Words such as "expects", "anticipates", "intends", "plans", "predicts", "believes", "seeks", "estimates", "potential", "continue", "strive", "ongoing", "may", "will", "would", "could", and "should", and variations of these words or similar expressions are intended to identify forward-looking statements. These forward-looking statements are based on management's current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by management, and we can give no assurance that we will achieve our plans, intentions or expectations. Certain important factors could cause actual results to differ materially from the forward-looking statements we make in this annual report. Representative examples of these factors include (without limitation):

- The impact of global pandemics, such as COVID-19;
- General industry and economic conditions, including a decreasing number of national claims due to decreasing number of injured workers;
- Competition from other managed care companies and third party administrators;
- The Company's ability to renew and/or maintain contracts with its customers on favorable terms or at all;
- The ability to expand certain areas of the Company's business;
- Growth in the Company's sale of third party administrator ("TPA") services;
- Shifts in customer demands;
- Increases in operating expenses, including employee wages, benefits and medical inflation;
- The ability of the Company to produce market-competitive software;
- Cost of capital and capital requirements;
- The ability to attract and retain key personnel;
- The impact of possible cybersecurity incidents;
- Possible litigation and legal liability in the course of operations, and the Company's ability to settle or otherwise resolve such litigation;
- Changes in regulations affecting the workers' compensation, insurance and healthcare industries in general;
- Governmental and public policy changes, including, but not limited to, legislative and administrative law and rule implementation or change;
- The impact of recently issued accounting standards on the Company's consolidated financial statements; and
- The availability of financing in the amounts, at the times, and on the terms necessary to support the Company's future business.

Part I, Item 1A of this annual report, "Risk Factors", discusses these and other important risk factors that may affect our business, results of operations and financial condition. The factors listed above and the factors described in Part I, Item 1A of this annual report, "Risk Factors", and similar discussions in our other filings with the Securities and Exchange Commission are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could have material adverse effects on our future results. Investors should consider these factors before deciding to make or maintain an investment in our securities. The forward-looking statements included in this annual report are based on information available to us as of the date of this annual report. We expressly disclaim any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.

PART I

Item 1. *Business.*

INTRODUCTION

CorVel applies technology including artificial intelligence, machine learning and natural language processing to enhance the managing of episodes of care and the related health care costs. We partner with employers, third-party administrators, insurance companies and government agencies in managing worker’s compensation and health, auto and liability services. Our diverse suite of solutions combines our integrated technologies with a human touch. CorVel's customized services, delivered locally, are backed by a national team to support clients as well as their customers and patients.

The Company’s services include claims management, bill review, preferred provider networks, utilization management, case management, pharmacy services, directed care and Medicare services. CorVel offers its services as a bundled solution (i.e. claims management), as a standalone service, or as add-on services to existing customers. Customers of the Company that do not purchase a bundled solution generally use another provider, an in-house solution, or choose not to utilize such a service to manage their workers’ compensation costs. When customers purchase several products from CorVel, the pricing of the products sold is generally the same as if the products were sold on an individual basis. Bundled products are generally delivered in the same accounting period.

The Company was incorporated in Delaware in 1987, and its principal executive offices are located at 5128 Apache Plume Road, Suite 400, Fort Worth, Texas 76109. The Company’s telephone number is 817-390-1416. CorVel changed the designation of its corporate headquarters from Irvine, California to Ft. Worth, Texas. The Company maintains a nationwide presence across a network of branches, and our Ft. Worth location provides a centrally located hub for the Company. The selection provides a sizable property footprint, a concentrated number of employees, and the site for this year’s annual stockholders meeting. Additionally, the Dallas-Fort Worth Metropolitan area offices perform both Worker’s Compensation and Group Health services. We believe this positioning of the headquarters puts CorVel in the best position for future growth in both areas.

INDUSTRY OVERVIEW

CorVel provides services to employers and payers in the risk management and insurance services arenas. This includes, but is not limited to, workers compensation, general liability, auto liability, and hospital bill auditing and payment integrity. Workers’ compensation is a federally mandated, state-legislated insurance program that requires employers to fund medical expenses, lost wages, and other costs resulting from work-related injuries and illnesses. Workers’ compensation benefits and arrangements vary extensively on a state-by-state basis and are often highly complex. State statutes and court decisions control many aspects of the compensation process, including claims handling, impairment or disability evaluation, dispute settlement, benefit amount guidelines, and cost-control strategies.

In addition to the compensation process, cost containment and claims management continue to be significant employer concerns and many look to managed care vendors and third party administrators for cost savings solutions. The Company believes that cost drivers in workers’ compensation include: implementing effective return-to-work and transitional duty programs, coordinating medical care, medical cost management, recognizing fraud and abuse, and improving communications with injured workers. CorVel provides solutions using a holistic approach to cost containment and by looking for a complete savings solution. Often one of the biggest cost drivers is not recognizing a complex claim at the onset of an injury, often resulting in claims being open longer and in a delayed return to work. CorVel uses an integrated claims model that controls claims costs by advocating medical management at the onset of the injury to decrease administrative costs and to shorten the length of the disability.

FISCAL 2021 DEVELOPMENTS

Company Stock Repurchase Program

During fiscal 2021, the Company continued to repurchase shares of its common stock under a plan originally approved by the Company’s Board of Directors in 1996. During fiscal 2021, the Company spent $33 million to repurchase 367,961 shares of its common stock. Since commencing this program in the fall of 1996, the Company has repurchased 36,653,552 shares of its common stock through March 31, 2021, at a cost of $564 million. These repurchases were funded primary from the Company’s operating cash flows. In May 2021, the Company’s Board of Directors increased the number of shares of common stock authorized to be repurchased over the life of the program by 1,000,000 shares of common stock to 38,000,000 shares of common stock.

BUSINESS — SERVICES

The Company offers services in two general categories, network solutions and patient management, to assist its customers in managing the increasing medical costs of workers' compensation, group health and auto insurance, and in monitoring the quality of care provided to claimants. CorVel reduces claims costs by advocating medical management at the onset of an injury to control administrative costs and to shorten the length of the disability. These solutions offer personalized treatment programs that use precise treatment protocols to advocate timely, quality care for injured workers.

Network Solutions Services

CorVel offers a complete medical savings solution for all in-network and out-of-network medical bills including professional nurse review, true line item review, expert fee negotiations, specialty networks, PPO management, medical bill repricing, automated adjudication, and electronic reimbursement. Each feature focuses on increasing processing efficiencies and maximizing savings opportunities.

Bill Review

Many states have adopted fee schedules, which regulate the maximum allowable fees payable under workers' compensation for procedures performed by a variety of health treatment providers. Developed in 1989, CorVel's proprietary bill review and claims management technology automates the review process to provide customers with a faster turnaround time, more efficient bill review and higher total savings. CorVel's artificial intelligence engine includes over 112 million individual rules, which creates a comprehensive review process that is more efficient than traditional manual bill review processes.

Payors are able to review and approve bills online as well as access savings reports through an online portal, CareMC, which is discussed in further detail below. The process is paperless, due to scanning and electronic data interface ("EDI"), proving to be cost effective and efficient, which is discussed in further detail below. CorVel's solutions are fully customizable and can be tailored to meet unique payor requirements.

Bill review services include:

- Coding review and re-bundling
- Reasonable and customary review
- Fee schedule analysis
- Out-of-network bill review
- Pharmacy review, which is discussed in further detail below
- PPO management, which is discussed in further detail below
- Repricing

PPO Management

PPOs are groups of hospitals, physicians and other healthcare providers that offer services at pre-negotiated rates to employee groups. The Company believes that PPO networks offer the employer an additional means of managing healthcare costs by reducing the per-unit price of medical services provided to employees. CorVel began offering a proprietary national PPO network in 1992, and today it is comprised of over 750,000 board-certified providers. The Company provides the convenience of a PPO provider look-up mobile application for use with smart phones and tablets. The application is available to the public and makes it convenient to locate a provider in the CorVel network. Users can search providers based on quality, range of services, and location.

CorVel has a long-term strategy of network development, providing comprehensive networks to our customers and customization of networks to meet the specific needs of our customers. The Company believes that the combination of its national PPO strength and presence and the local PPO developers' commitment and community involvement enables CorVel to build, support and strengthen its PPO in size, quality, depth of discount, and commitment to service.

The Company has a team of national, regional and local personnel supporting the CorVel network. This team of PPO developers is responsible for local recruitment, contract negotiations, credentialing and re-credentialing of providers, and working with customers to develop customer-specific provider networks. Each bill review operation has provider relations support staff to address provider grievances and other billing issues.

Providers are selected from criteria based on quality, range of services, price and location. Each provider is thoroughly evaluated and credentialed, then re-credentialed every three years. Through this extensive evaluation process, we are able to provide significant hospital, physician and ancillary medical savings, while maintaining high quality care. Provider network services include a national network for all medical coverages, board-certified physicians, provider credentialing, patient channeling, online PPO look-up, printable directories and driving directions, and MCOs.

CERiS®

CERiS, CorVel's enhanced review program, performs a clinical review and comparative analysis of itemized billing statements against national and customer payment standards. CERiS is a national provider of cost management solutions to employers, third party administrators, insurance companies and government agencies. The Company's comprehensive forensic solution reviews charge utilization, appropriateness of charges, and billing behavior, to verify proper payment of claims. CERiS offers clarity to those who pay facility claims and are unsure if the billing is correct. CERiS produces incremental savings prior to payment, lowers provider friction, increases efficiencies with client and facility relationships, and easily scales to a payor's enterprise needs.

Professional Review

CorVel's services offer a complete audit and validation of facility bill accuracy. This solution also includes review of in-network facility bills. The Company's experienced nurse auditors have clinical backgrounds in all areas of medicine, medical billing and coding to ensure an accurate, consistent and thorough review. If a bill is identified for professional review, the bill image and its associated medical reports are routed within the system to an experienced medical nurse for review and auditing.

Provider Reimbursement

One of the interfaces of CorVel's bill review service is the automated issuance of provider reimbursements. CorVel's provider reimbursement service allows the ability to determine dollars spent and bills reviewed and to assist in setting reserves through charts available online. Through the bill review system, CorVel has the capability to provide check writing or provider reimbursement services for its customers. The provider payment check can be added to the bill review analysis to produce one combined document.

Symbeo℠

We continue to leverage our Symbeo technologies, which include scanning, optical character recognition, and document management services. We continue to expand our existing office automation service line and all offices are selling scanning and document management services. We have added scanning operations to most of the Company's larger offices around the country, designating them "Capture Centers." Our scanning service also offers a web interface (www.onlinedocumentcenter.com) providing immediate access to documents and data called the Online Document Center (known as ODC). Secure document review, approval, transaction workflow and archival storage are available at subscription-based pricing.

Additionally, Symbeo provides accounts payable automation that manages the entire accounts payable process. Routing for coding and approvals are configured to customer specific workflows, which automatically routes each invoice to a specific review or approval status.

Pharmacy Services

CorVel provides patients with a full-feature pharmacy program that offers formulary management, discounted prescriptions, drug interaction monitoring, utilization management and eligibility confirmation. Our pharmacy network of nationally recognized pharmacies provides savings off the retail price of prescriptions associated with a workers' compensation claim. The Company's pharmacy services program includes preferred access to a national pharmacy network, streamlined processing for pharmacies at point of sale, first fill and next fill programs, out-of-network management, medication review services and clinical modeling.

Directed Care Services

CorVel offers a national directed care network that provides access to specialty medical services, which may be required to support an injured worker's medical treatment plan. CorVel has contracted with medical imaging, physical therapy, diagnostics and ancillary service networks to offer convenient access, timely appointments and preferred rates for these services. The Company manages the entire coordination of care from appointment scheduling through reimbursement, working to achieve timely recovery and increased savings. The Company has directed care networks for CT and MRI, diagnostic imaging, physical and occupational therapy, independent medical evaluations, durable medical equipment and transportation and translation.

Medicare Solutions

The Company offers solutions to help manage the requirements mandated by the Centers for Medicare and Medicaid Services ("CMS"). Services include Medicare Set Asides and Agent Reporting Services to help employers comply with new CMS reporting legislation. As an assigned agent, CorVel can provide services for Responsible Reporting Entities (known as RREs) such as insurers and employers. As an experienced information-processing provider, CorVel is able to electronically submit files to the CMS in compliance with timelines and reporting requirements.

Clearinghouse Services

CorVel's proprietary medical review software and claims management technology interfaces with multiple clearinghouses. The Company's clearinghouse services provide for medical review, conversion of electronic forms to appropriate payment formats, seamless submission of bills for payments and rules engines used to help ensure jurisdictional compliance.

<u>Patient Management Services</u>

CorVel offers a unique approach to patient management through the third party administrator ("TPA") services it offers. Patient management services include claims management and all services sold to claims management customers, case management, 24/7 nurse triage, utilization management, vocational rehabilitation, and life care planning. This integrated service model controls claims costs by advocating medical management at the onset of the injury to decrease administrative costs and to shorten the length of the disability. This automated solution offers a personalized treatment program for each injured worker, using precise treatment protocols to meet the changing needs of patients on an ongoing basis. The Company offers these services on a stand-alone basis or as an integrated component of its medical cost containment services.

Claims Management

The Company serves customers in the self-insured and commercially-insured markets. Incidents and injuries are reported through a variety of intake methods that include a 24/7 nurse triage call center, website, mobile applications, toll-free call centers and traditional methods of paper and fax reporting. The reported incidents and injuries are immediately processed by CorVel's proprietary rules engine, which provides alerts and recommendations throughout the life of a claim. This technology instantly assigns the claimant an expert claims professional, while simultaneously determining if a claim requires any immediate attention for triage.

Through this service, the Company serves customers in the self-insured or commercially-insured market through alternative loss funding methods, and provides them with a complete range of services, including claims administration, case management, and medical bill review. In addition to the field investigation and evaluation of claims, the Company also may provide initial loss reporting services for claims, loss mitigation services such as medical bill review, vocational rehabilitation, administration of trust funds established to pay claims, and risk management information services.

Some of the features of claims management services include: automated first notice of loss, three-point contact within 24 hours, prompt claims investigations, detailed diary notes for each step of the claim, graphical dashboards and claim history scorecards, and litigation management and expert testimony.

Case Management

CorVel's case management and utilization review services address all aspects of disability management and recovery, including utilization review (pre-certification, concurrent review and discharge planning), early intervention, telephonic, field and catastrophic case management, as well as vocational rehabilitation.

The medical management components of CorVel's program focus on medical intervention, management and appropriateness. In these cases, the Company's case managers confer with the attending physician, other providers, the patient and the patient's family to identify the appropriate rehabilitative treatment and most cost-effective healthcare alternatives. The program is designed to offer the injured party prompt access to appropriate medical providers who will provide quality cost-effective medical care. Case managers may coordinate the services or care required and may arrange for special pricing of the required services.

The Telephonic Case Manager continues to impact the direction of the case, focusing on early return to work, maximum medical improvement and appropriate duration of disability. Facilitation of appropriate treatment, assertive negotiation with medical providers and directing the care of the injured worker continues to be the Telephonic Case Manager's role until the closure criteria is met. Utilization review of provider treatment remains ongoing until discharge from treatment.

In the event that a claim may require an onsite referral, a Field Case Manager (“FCM”) will be assigned to the claim. Cases can be referred to CorVel based on geographic location and injury type to the most appropriate FCM. Specialized case management services include catastrophic management, life care planning, and vocational rehabilitation services. All FCMs have iPads that provide access to the Company’s proprietary mobile applications, providing instant access to detailed case information and the ability to enter case notes.

Virtual Care Platform

Injured workers can call at the time of injury or incident and speak with a registered nurse who specializes in occupational injuries. An assessment is immediately made to recommend self-care, or referral for further medical care if needed. CorVel is able to provide quick and accurate care intervention, often preventing a minor injury from becoming an expensive claim. The 24/7 nurse triage services provide channeling to a preferred network of providers, allows employer access to online case information, comprehensive incident gathering, and healthcare advocacy for injured workers. Additionally, after being screened by a triage nurse, the service offering will now include the ability to connect injured workers with virtual doctor visits via computers and smart mobile devices through CorVel’s new service, Telehealth. Telehealth, which is approved in nearly all states, is integrated into CorVel’s proactive healthcare model as an option for qualified injuries, primarily musculoskeletal. Telehealth preserves the integrity of the patient-physician relationship with confidential, HIPAA compliant transactions, while also channeling injured workers to network providers for physical therapy or prescriptions when needed.

Utilization Management

Utilization Management programs review proposed care to determine appropriateness, frequency, duration and setting. These programs utilize experienced registered nurses, proprietary medical treatment protocols and systems technology to avoid unnecessary treatments and associated costs. Processes in Utilization Management include: injury review, diagnosis and treatment planning, contacting and negotiating provider treatment requirements, certifying appropriateness of treatment parameters, and responding to provider requests for additional treatment. Utilization Management services include: prospective review, retrospective review, concurrent review, professional nurse review, second opinion, peer review, precertifications and independent medical evaluation.

Vocational Rehabilitation

CorVel’s Vocational Rehabilitation program is designed for injured workers needing assistance returning to work or retaining employment. This comprehensive suite of services helps employees who are unable to perform previous work functions and who face the possibility of joining the open labor market to seek re-employment. These services are available unbundled on an integrated basis as dictated by the requirement of each case and customer preference, or by individual statutory requirements. Vocational rehabilitation services include: ergonomic assessments, rehabilitation plans, transferable skills analysis, labor market services, job seeking skills, resumé development, job analysis and development, job placement, career counseling and expert testimony.

Disability Management

CorVel’s disability management programs offer a continuum of services for short and long-term disability coverages that advocate an employee’s early return to work. Disability management services include: absence reporting, disability evaluations, national preferred provider organizations, independent medical examinations, utilization review, medical case management, return-to-work coordination and integrated reporting.

Liability Claims Management

CorVel also offers liability claims management services that can be sold as a stand-alone service or part of patient management. Liability claims management services encompass auto liability, general liability, product liability, personal injury, professional liability and property damage, accidents and weather-related damage. These services include claims management, adjusting services, litigation management, claims subrogation, and investigations.

Auto Claims Management

Injury claims are one of the largest components of auto indemnity costs. Effective management of these claims and their associated costs, combined with an optimal healthcare management program, helps CorVel’s customers reduce claim costs. The Company’s auto claims services include national preferred provider organizations, medical bill review, first and third party bill review, first notice of loss, demand packet reviews and reporting and analytics.

SYSTEMS AND TECHNOLOGY

Infrastructure and Data Center

The Company utilizes a Tier III-rated data center as its primary processing site. Redundancy is provided at many levels in power, cooling, and computing resources, with the goal of ensuring maximum uptime and system availability for the Company's production systems. The Company has fully embraced server virtualization and consolidation techniques to push the fault-tolerance of systems even further. These technologies bring increased availability, speed-to-production and scalability.

Adoption of Imaging Technologies and Paperless Workflow

Utilizing scanning and automated data capture processes allows the Company to process incoming paper and electronic claims documents, including medical bills, with less manual handling, which has improved the Company's workflow processes. This has benefited both the Company, in terms of cost savings, and the Company's customers, in improved savings results. Through the Company's online portal, CareMC (www.caremc.com), customers can review bills as soon as they are processed and approve a bill for payment, streamlining the customer's workflows and expediting the payment process.

Redundancy Center

The Company's national data center is located near Portland, Oregon. The redundancy center, which is located in Lone Mountain, Nevada, is the Company's backup processing site in the event that the Portland data center suffers catastrophic loss. Currently, the Company's data is continually replicated to Lone Mountain in near-real time, so that in the event the Portland data center is offline, the redundancy center can be activated with current information quickly. The Lone Mountain data center also hosts duplicates of the Company's websites. The systems are maintained and exercised on a continuous basis as they host demonstration and pilot environments that mirror production, with the goal of ensuring their ongoing readiness.

CareMC®

CareMC (www.caremc.com) is CorVel's application platform which offers customers direct and immediate access to the Company's primary service lines. CareMC allows for electronic communication and reporting between providers, payers, employers and patients. Features of the website include: report an incident/injury, request for service, appointment scheduling, online bill review, claims information management, treatment calendar, medical bill adjudication and automated provider reimbursement.

Through CareMC, users can:

- Manage files throughout the life of the claim;
- Receive and relay case notes from case managers; and
- Integrate information from multiple claims management sources into one database.

CareMC facilitates healthcare transaction processing. Using artificial intelligence technology, the website provides situation alerts and event triggers, to facilitate prompt and effective decisions. Users of CareMC can quickly see where event outliers are occurring within the claims management process. If costs exceed pre-determined thresholds or activities fall outside expected timelines, decision-makers, i.e. the customer, can be quickly notified. The latest feature within CareMC, the Edge, modernizes claims processing and adapts to the way people need to work. This module facilitates quicker decision making by prioritizing information that is easily actionable. Seamlessly integrated within the platform, the Edge browses codified data and prioritizes claims, alerting adjusters to those claims needing attention and what actions need to be taken. The Edge brings forward live, up to the minute claims information on one screen to help guide users toward their next action.

Claims Processing

We continue to develop our claims system capabilities, which reflects the Company's preference for owning and maintaining our own software assets. Integration projects, some already completed, are underway to present more of this claims-centric information available through the CareMC online portal. The Company's goal is to continue to modernize user interfaces, give more rapid feedback and put real-time information in the hands of our customers.

INDUSTRY, CUSTOMERS AND MARKETING

CorVel serves a diverse group of customers that include insurers, third party administrators, self-administered employers, government agencies, municipalities, state funds, and numerous other industries. CorVel is able to provide workers' compensation services to virtually any size employer and in any state or region of the United States. No single customer of the Company represented more than 10% of revenues in fiscal 2021, 2020 or 2019. One customer accounted for 10% or more of accounts receivable at March 31, 2021. No customer accounted for 10% or more of accounts receivable at March 31, 2020. Many claims management decisions in workers' compensation are the responsibility of the local claims office of national or regional insurers. The Company's national branch office network enables the Company to market and offer its services at both a local and national account level. The Company has placed increasing emphasis on national account marketing. The sales and marketing activities of the Company are conducted primarily by account executives located in key geographic areas.

COMPETITION AND MARKET CONDITIONS

The healthcare cost containment industry is competitive and is subject to economic pressures for cost savings and legislative reforms. CorVel's primary competitors in the workers' compensation market include third party administrators, MCOs, large insurance carriers and numerous independent companies. Many of the Company's competitors are significantly larger and have greater financial and marketing resources than the Company. Moreover, the Company's customers may establish the in-house capability of performing the kinds of services offered by the Company. If the Company is unable to compete effectively, it will be difficult to add and retain customers, and the Company's business, financial condition and results of operations will be materially and adversely affected.

There has been unprecedented acceleration in mobile and other technology in the past few years. This capability provides immediate access and begins to present business opportunities that were previously predicated on a less connected environment. The Company continues to leverage the latest ideas in technology in order to connect all of the parties involved in the workers' compensation process in ways that were unimaginable in the past. The Company will continue to focus the execution of its strategy on providing industry leading claims management and cost containment solutions to the market.

GOVERNMENT REGULATIONS

General

Managed healthcare programs for workers' compensation are subject to various laws and regulations. Both the nature and degree of applicable government regulation vary greatly depending upon the specific activities involved. Generally, parties that actually provide or arrange for the provision of healthcare services, such as the Company, assume financial risk related to the provision of those services or undertake direct responsibility for making payment or payment decisions for those services. These parties are subject to a number of complex regulatory requirements that govern many aspects of their conduct and operations.

In contrast, the management and information services provided by the Company to its customers typically have not been the subject of regulation by the federal government or the states. Since the managed healthcare field is a rapidly-expanding and changing industry and the cost of providing healthcare continues to increase, it is possible that the applicable state and federal regulatory frameworks will expand to have a greater impact upon the conduct and operation of the Company's business.

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

We are required to be licensed or receive regulatory approval in nearly every state and foreign jurisdiction in which we do business. In addition, most jurisdictions require individuals who engage in claim adjusting and certain other insurance service activities to be personally licensed. These licensing laws and regulations vary from jurisdiction to jurisdiction. In most jurisdictions, licensing laws and regulations generally grant broad discretion to supervisory authorities to adopt and amend regulations and to supervise regulated activities.

Medical Cost Containment Legislation

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

SHAREHOLDER RIGHTS PLAN

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

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

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

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

HUMAN CAPITAL

In 2020, the COVID-19 pandemic had a significant impact on our human capital management. Most of our office locations are operating at reduced capacity. Accordingly, the vast majority of our employees continue to work remotely for some or all of their work week. We have instituted safety protocols and procedures for employees when they are in an office.

As of March 31, 2021, CorVel had 3,681 employees, including nurses, therapists, counselors and other employees. No employees are represented by any collective bargaining unit. Management believes the Company's relationship with its employees to be good.

Human Capital is a key component to our success. CorVel was recently awarded certification as a Great Place to Work Company based on independent surveys of its employees. Our culture and organizational purpose is embodied by our ACE-IT values of Accountability, Commitment, Excellence, Integrity, and Teamwork. These values define our desired culture, and influence organizational behavior, decision-making and our people priorities. Our mission is to provide an enduring culture where we are empowered to seek our full potential, working together to change the industry, making a real difference to those we serve. Our vision is to make a real difference with our partners by creating a new standard of excellence in service and outcomes.

Diversity and inclusion are core to the Company's values and instrumental in delivering stronger business growth. The more diverse our backgrounds and experiences, the more we can achieve together working side by side. Our Company's greatest strength and resource is the talent of our employees. Additionally, we believe in providing opportunities for career progression for our people and as such, establish goals of filling open positions with internal talent.

As of March 31, 2021, over a third of our employees identify as racially/ethnically diverse. Additionally, over 75% of our employees identify as women. Over 70% of the Company's managers identify as women.

AVAILABLE INFORMATION

Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and any amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act, and other filings made with the Securities and Exchange Commission ("SEC"), are available free of charge through our website (http://www.corvel.com, under the Investor section) as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The inclusion of our website address and the address of any of our portals, such as www.caremc.com and www.onlinedocumentcenter.com, in this annual report does not include or incorporate by reference into this annual report any information contained on, or accessible through, such websites.

Item 1A. *Risk Factors.*

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

Risks Related to Our Business and Our Industry

Our results of operations have been adversely affected and could in the future be materially adversely affected by the COVID-19 coronavirus pandemic.

The global spread of the COVID-19 coronavirus has created significant volatility, uncertainty, unemployment and economic disruption. The extent to which the COVID-19 pandemic impacts our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including:

- the duration and scope of the pandemic;
- governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic;
- the distribution and effectiveness of vaccines;
- the impact of the pandemic on economic activity and actions taken in response;
- the effect on our customers and customer demand for our services and solutions, that could cause a reduction in revenue;
- our ability to sell and provide our services and solutions, including as a result of travel restrictions and employees working from home and widespread unemployment;
- the ability of our customers to pay for our services and solutions;
- the impact on our third party vendors;
- any closures of our, and our customers' and providers' offices and facilities, and
- any restrictions on our ability to provide services at a claim site or the location of a claimant whether for purposes of evaluating the claim or delivering services.

The closure of offices or restrictions inhibiting our employees' ability to travel or interact with claimants and access claim sites, has disrupted, and could in the future disrupt, our ability to provide our services and solutions to our customers. In addition, widespread unemployment has resulted in fewer doctor visits and fewer workers' compensation and general liability claims. The majority of our workforce continues to work from home, which in the long run could have material adverse impact on our level of service. This may result in, among other things, decreased demand for our services, terminations of customer contracts, delays in our ability to perform services, an altering of the mix of services requested by customers and claimants, and other losses of revenue. Customers may also slow down decision making, delay planned work or seek to terminate existing agreements. Any of these events could cause or contribute to the risks and uncertainties enumerated in this report and could materially adversely affect our business, financial condition, results of operations and/or stock price.

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

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

Natural and other disasters may adversely affect our business.

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

The rapid and widespread transmission of COVID-19 coronavirus beginning in late 2019 impacts us in significant ways. To mitigate the spread of the COVID-19 disease, we implemented travel restrictions and remote working arrangements for most of our employees in order to minimize physical contact. These measures might not fully mitigate COVID-19 risks to our workforce and we could experience unusual levels of absenteeism that might impair operations. The pandemic reduces demand for some products due to delays or cancellations of elective medical procedures, consumer self-isolation, widespread unemployment and business closures, among other reasons. The ongoing impacts of the pandemic might cause a prolonged general economic slowdown or recession in one or more markets, disruptions and volatility in global capital markets and other broad and adverse effects on the economy, business conditions, commercial activity and the healthcare industry. If the pandemic does not subside, or if there is a resurgence, it could materially adversely impact our business operations, financial position and results of operations in unpredictable ways that depend on highly-uncertain future developments, such as determining the effectiveness of current or future government actions to address the public health or economic impacts of the pandemic. Any of these risks might have a materially adverse effect on our business operations and our financial position or results of operations.

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

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

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

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

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

Our business strategy and future success depend in part on our ability to capture market share with our cost containment services as national and regional insurance carriers and large, self-funded employers look for ways to achieve cost savings. There can be no assurance that we will successfully market our services to these insurance carriers and employers or that they will not resort to other means to achieve cost savings. Additionally, our ability to capture additional market share may be adversely affected by the decision of potential customers to perform services internally instead of outsourcing the provision of such services to us. Furthermore, we may not be able to demonstrate sufficient cost savings to potential or current customers to induce them not to provide comparable services internally or to accelerate efforts to provide such services internally.

If competition increases, our growth and profits may decline.

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

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

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

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

Within the past few years, as the labor market has become less labor intensive and more service oriented, there are flat-to-declining work-related injuries. Additionally, employers are being more proactive to prevent injuries. If declines in workers' compensation costs occur in many states and persist over the long-term, it would have a material adverse impact on our business, financial condition and results of operations.

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

The decline in economic activity caused by COVID-19 has already adversely affected, and in future periods, could materially adversely affect our business, results of operations and financial condition. Continued reductions in our customers' exposure units (such as headcount, payroll, properties, the market values of their assets, plant and equipment, and other asset utilization levels, among other factors) will reduce the amount of claims administration services they need. In addition, with unprecedented levels of unemployment and business closures, the number of newly arising workers' compensation and general liability claims, which directly impact our fee revenues in our risk management operation, have declined. The decline in economic activity due to COVID-19 has caused some of our customers to become financially less stable, and if this trend continues and customers enter bankruptcy, liquidate their operations or consolidate, our revenues and the collectability of our receivables will be adversely affected.

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

Healthcare providers have become more active in their efforts to minimize the use of certain cost containment techniques and are engaging in litigation to avoid application of certain cost containment practices. Recent litigation between healthcare providers and insurers has challenged certain insurers' claims adjudication and reimbursement decisions. These cases may affect the use by insurers of certain cost containment services that we provide and may result in a decrease in revenue from our cost containment business.

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

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

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

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

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

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

Sustained increases in the cost of our employee benefits could materially reduce our profitability.

The cost of our current employees' medical and other benefits substantially affects our profitability. In the past, we have occasionally experienced significant increases in these costs as a result of macro-economic factors beyond our control, including increases in healthcare costs. There can be no assurance that we will succeed in limiting future cost increases, and continued upward pressure in these costs could materially reduce our profitability.

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

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

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

We may not be able to develop or acquire necessary IT resources to support and grow our business, and disruptive technologies could impact the volume and pricing of our products, which could materially adversely affect our business, results of operations, and financial condition.

We have made substantial investments in software and related technologies that are critical to the core operations of our business. These IT resources will require future maintenance and enhancements, potentially at substantial costs. Additionally, these IT resources may become obsolete in the future and require replacement, potentially at substantial costs. We may not be able to develop, acquire replacement resources or identify new technology resources necessary to support and grow our business.

In addition, we could face changes in our markets due to disruptive technologies that could impact the volume and pricing of our products, or introduce changes to the claims management processes which could negatively impact our volume of case referrals. Our failure to address these risks, or to do so in a timely manner, or at a cost considered reasonable by us, could materially adversely affect our business, results of operations, and financial condition.

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

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

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

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

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

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

Risks Related to Cybersecurity and Our Information Systems

A cybersecurity attack or other disruption to our information technology systems could result in the loss, theft, misuse, unauthorized disclosure, or unauthorized access of customer or sensitive company information or could disrupt our operations, which could damage our relationships with customers or employees, expose us to litigation or regulatory proceedings, or harm our reputation, any of which could materially adversely affect our business, financial condition or results of operations.

We rely on information technology to support our business activities. Our business involves the storage and transmission of a significant amount of personal, confidential, or sensitive information, including the personal information of our customers and employees, and our company's financial, operational and strategic information. As with many businesses, we are subject to numerous data privacy and security risks, which may prevent us from maintaining the privacy of this information, result in the disruption of our business and online systems, and require us to expend significant resources attempting to secure and protect such information and respond to incidents, any of which could materially adversely affect our business, financial condition or results of operations. The loss, theft, misuse, unauthorized disclosure, or unauthorized access of such information could lead to significant reputational or competitive harm, result in litigation or regulatory proceedings, or cause us to incur substantial liabilities, fines, penalties or expenses.

Cybersecurity breaches of any of the systems on which we rely may result from circumvention of security systems, denial-of-service attacks or other cyber-attacks, hacking, "phishing" attacks, computer viruses, ransomware, malware, employee or insider error, malfeasance, social engineering, physical breaches or other actions. According to media reports, the frequency, intensity, and sophistication of cyber-attacks, ransomware attacks, and other data security incidents generally has significantly increased around the globe in recent years. As with many other businesses, we have experienced, and are continually at risk of being subject to, attacks and incidents, including cybersecurity breaches such as computer viruses, unauthorized parties gaining access to our information technology systems and similar incidents. Cybersecurity breaches could cause us, and in some cases, materially, to experience reputational harm, loss of customers, loss and/or delay of revenue, loss of proprietary data, loss of licenses, regulatory actions and scrutiny, sanctions or other statutory penalties, litigation, liability for failure to safeguard customers' information, financial losses or a drop in our stock price. We have invested in and continue to expend significant resources on information technology and data security tools, measures, processes, initiatives, policies and employee training designed to protect our information technology systems, as well as the personal, confidential or sensitive information stored on or transmitted through those systems, and to ensure an effective response to any cyber-attack or data security incident. These expenditures could have an adverse impact on our financial condition and results of operations, and divert management's attention from pursuing our strategic objectives. In addition, the cost and operational consequences of implementing, maintaining and enhancing further system protective measures could increase significantly as cybersecurity threats increase, and there can be no assurance that the security measures we employ will effectively prevent cybersecurity breaches or otherwise prevent unauthorized persons from obtaining access to our systems and information.

As these threats evolve, cybersecurity incidents could be more difficult to detect, defend against, and remediate. Cyber-attacks or data incidents could remain undetected for some period, which could potentially result in significant harm to our systems, as well as unauthorized access to the information stored on and transmitted by our systems. Further, despite our security efforts and training, our employees may purposefully or inadvertently cause security breaches that could harm our systems or result in the unauthorized disclosure of or access to information. Any measures we do take to prevent security breaches, whether caused by employees or third parties, could have the potential to harm relationships with our customers or restrict our ability to meet our customers' expectations.

If a cyber-attack or other data incident results in the loss, theft, misuse, unauthorized disclosure, or unauthorized access of personal, confidential, or sensitive information belonging to our customers or employees, it could put us at a competitive disadvantage, result in the deterioration of our customers' confidence in our services, cause our customers to reconsider their relationship with our company or impose more onerous contractual provisions, cause us to lose our regulatory licenses, and subject us to potential litigation, liability, fines and penalties. For example, we could be subject to regulatory or other actions pursuant to privacy laws. This could result in costly investigations and litigation, civil or criminal penalties, operational changes and negative publicity that could adversely affect our reputation, as well as our results of operations and financial condition.

A cyber-attack or other data security incident could result in the significant and protracted disruption of our business such that:

- critical business systems become inoperable or require a significant amount of time or cost to restore;
- key personnel are unable to perform their duties or communicate with employees, customers or other third-parties;
- it results in the loss, theft, misuse, unauthorized disclosure, or unauthorized access of customer or company information;
- we are prevented from accessing information necessary to conduct our business;

- we are required to make unanticipated investments in equipment, technology or security measures;
- customers cannot access our websites and online systems; or
- we become subject to other unanticipated liabilities, costs, or claims.

Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations, and result in harm to our reputation. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of the losses and costs associated with cyber-attacks and data incidents, such insurance coverage may be insufficient to cover all losses and would not, in any event, remedy damage to our reputation. In addition, we may face difficulties in recovering any losses from our provider and any losses we recover may be lower than we initially expect.

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

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

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

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

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

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

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

Risks Related to Potential Litigation

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

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

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

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

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

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

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

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

Risks Related to Our Regulatory Environment

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

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

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

In addition, changes in workers' compensation, automobile insurance, and group healthcare laws or regulations may reduce demand for our services, which would 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.

Increasing regulatory focus on privacy issues and expanding privacy laws could impact our business models and expose us to increased liability.

U.S. privacy and data security laws apply to our various businesses. Governments, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. Globally, new laws, such as the General Data Protection Regulation ("GDPR") in Europe, the California Consumer Privacy Act ("CCPA") in California, and industry self-regulatory codes have been enacted and more are being considered that may affect our ability to respond to customer requests under the laws, and to implement our business models effectively. These requirements, among others, may force us to bear the burden of more onerous obligations in our contracts. Any perception of our practices, products or services as a violation of individual privacy rights may subject us to public criticism, class action lawsuits, reputational harm, or investigations or claims by regulators, industry groups or other third parties, all of which could disrupt our business and expose us to increased liability.

Additionally, we store information on behalf of our customers and if our customers fail to comply with contractual obligations or applicable laws, it could result in litigation or reputational harm to us.

Risks Related to Ownership of Our Common Stock

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

The market price of our common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. The stock market has in the past experienced price and volume fluctuations that have particularly affected companies in the healthcare and managed care markets resulting in changes in the market price of the stock of many companies, which may not have been directly related to the operating performance of those companies. There can be no assurance that the market price of our common stock will not fluctuate or decline significantly in the future.

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

In 1996, our Board of Directors authorized a stock repurchase program and, since then, has periodically increased the number of shares authorized for repurchase under the repurchase program. The most recent increase occurred in May 2021 and brought the number of shares authorized for repurchase over the life of the program to 38,000,000 shares. There is no expiration date for the repurchase program. The timing and actual number of shares repurchased, if any, depend on a variety of factors including the timing of open trading windows, price, corporate and regulatory requirements, and other market conditions. The program may be suspended or discontinued at any time without prior notice. Repurchases pursuant to our stock repurchase program could affect our stock price and increase its volatility. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, repurchases under our stock repurchase program will diminish our cash reserves, which could strain our liquidity, could impact our ability to pursue possible future strategic opportunities and acquisitions and could result in lower overall returns on our cash balances. There can be no assurance that any further stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of stock. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness.

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

None.

Item 2. ***Properties.***

In fiscal 2021, the Company's principal executive office was relocated in Fort Worth, Texas in approximately 25,000 square feet of leased space. The lease expires in April 2028. The Company leases 74 branch offices in 43 states, which range in size from 200 square feet up to 59,000 square feet. The lease terms for the branch offices range from monthly to 10 years and expire at various dates through 2029. The Company owns a 32,000 square foot building located in Milwaukie, Oregon. The Company believes that its facilities are adequate for its current needs and that suitable additional space will be available as required.

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

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

Item 4. ***Mine Safety Disclosures.***

Not applicable.

PART II

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

Market Information

The Company's common stock is traded on the NASDAQ Global Select Market under the symbol CRVL.

Holders. As of May 24, 2021, there were approximately 843 holders of record of the Company's common stock according to 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 do so in the foreseeable future. The Company intends to retain future earnings, if any, for use in the Company's business and for purchases of stock under its stock repurchase program. The payment of any future dividends on its common stock will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and requirements, restrictions in financing agreements, business conditions and other factors.

Recent Sales of Unregistered Equity Securities. None.

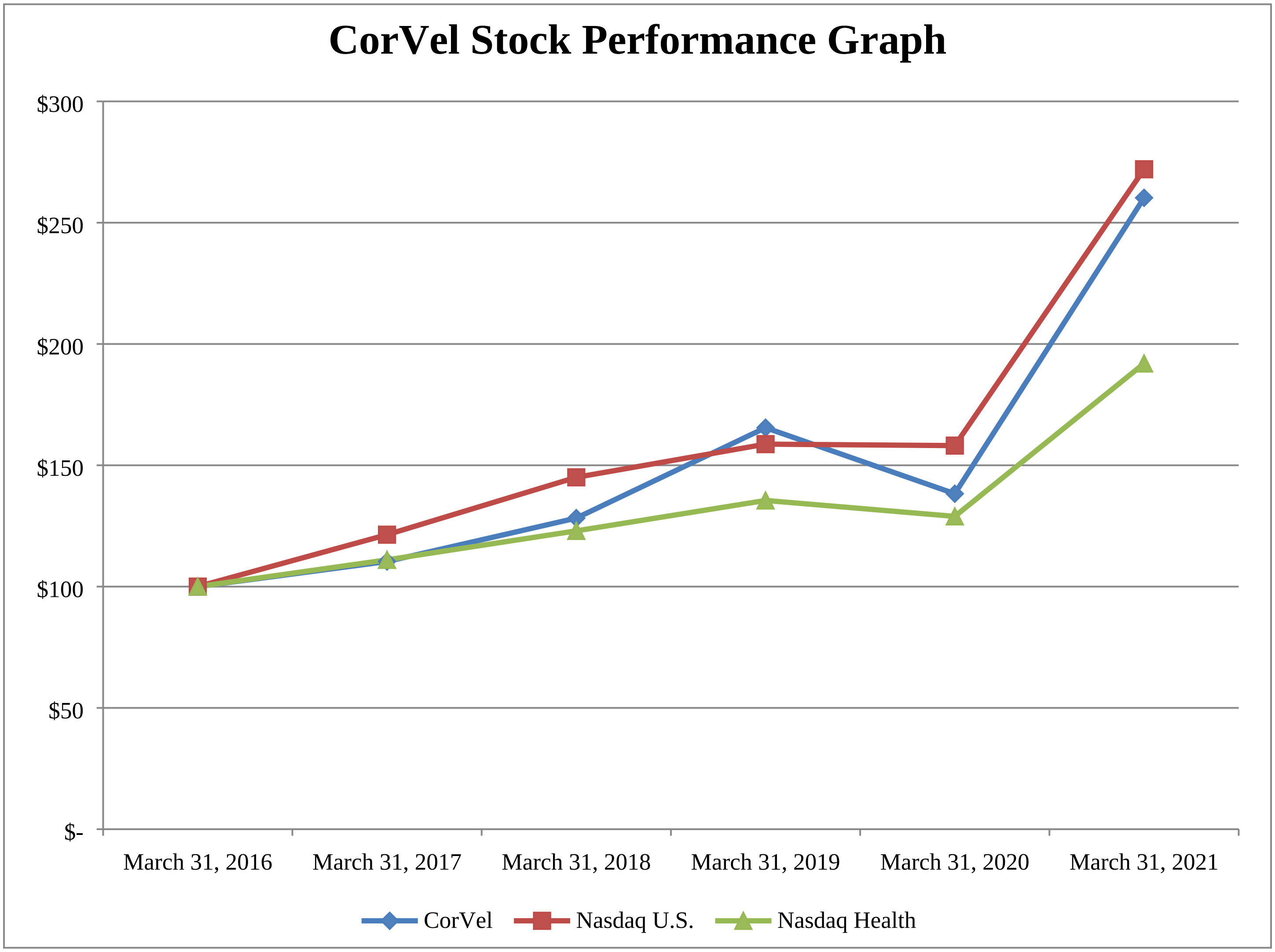
Issuer Purchases of Equity Securities. The following table summarizes purchases of the Company's common stock made by or on behalf of the Company or any affiliated purchaser in the quarter ended March 31, 2021.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that may yet be Purchased Under the Program
January 1 to January 31, 2021	27,164	$ 104.85	27,164	420,125
February 1 to February 28, 2021	29,907	103.59	29,907	390,218
March 1 to March 31, 2021	43,770	105.04	43,770	346,448
Total	100,841	$ 104.56	100,841	346,448

In 1996, the Company's Board of Directors authorized a stock repurchase program initially for up to 100,000 shares of the Company's common stock. The Company's Board of Directors has periodically increased the number of shares of common stock authorized for repurchase under the program. In May 2021, the Company's Board of Directors increased the number of shares of common stock authorized to be repurchased over the life of the program by 1,000,000 shares of common stock to 38,000,000 shares of common stock. As of March 31, 2021, the Company has repurchased 36,653,552 shares of its common stock over the life of the program. There is no expiration date for the program.

STOCK PERFORMANCE GRAPH

The graph and the table depicted below show a comparison of cumulative total stockholder returns for the Company, the NASDAQ and the NASDAQ Healthcare Services Index over a five year period beginning on March 31, 2016. The graph assumes that $100 was invested in the Company's Common Stock on March 31, 2016, and in each index, and that all dividends were reinvested. No cash dividends have been paid or declared on the Common Stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.



	2016	2017	2018	2019	2020	2021
CorVel Corporation	100.00	110.35	128.23	165.50	138.28	260.25
U.S. NASDAQ	100.00	121.39	145.04	158.72	158.12	272.02
U.S. NASDAQ Healthcare Services	100.00	111.03	122.97	135.51	128.94	191.96

Notwithstanding anything to the contrary set forth in any of our previous filings made under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings made by us under those statutes, neither the preceding Stock Performance Graph, nor the information relating to it, is "soliciting material" or is "filed" or is to be incorporated by reference into any such prior filings, nor shall such graph or information be incorporated by reference into 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 immediately following the signature pages of this annual report, 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 separate section of this annual report immediately following the "Selected Financial Data" section, and is incorporated herein by this reference.

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

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates. We do not hold or issue financial instruments for trading purposes.

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

The Company's consolidated financial statements, as listed under Item 15(a)(1), appear in a separate section of this annual report, and are incorporated herein by this reference. The financial statement schedule is included below under Item 15(a)(2). The Company's selected quarterly financial data appears in Note 16 to the Company's consolidated financial statements in a separate section of this annual report, and is incorporated herein by this reference.

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

None.

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

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2021, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is (i) recorded, processed, summarized, and reported, within the time periods specified in the Commission's rules and forms and (ii) accumulated and communicated to our management, including our principal executive and principal accounting officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

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

Management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control—Integrated Framework*. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of March 31, 2021 to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Our independent registered public accounting firm, Haskell & White LLP, has audited our consolidated financial statements included in this annual report and has issued an attestation report on the effectiveness of our internal control over financial reporting as of March 31, 2021 as stated in their report that is included in Part II, Item 8 herein.

Changes to Internal Control over Financial Reporting

During the quarter ended March 31, 2021, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 Composition and Board Committees,” and “Information About Our Executive Officers” appearing in the Company’s Definitive Proxy Statement for the 2021 Annual Meeting of Stockholders is incorporated herein by reference.

The Board of Directors has adopted a code of ethics and business conduct that applies to all of the Company’s employees, officers and directors. The full text of the Company’s code of ethics and business conduct is posted on the Company’s website at www.corvel.com. The Company intends to disclose future amendments to certain provisions of the Company’s code of ethics and business conduct, or waivers of such provisions, applicable to the Company’s directors and executive officers, at the same location on the Company’s website identified above. The inclusion of the Company’s website address in this annual report does not include or incorporate by reference the information on the Company’s website into this annual report.

Item 11. ***Executive Compensation.***

The information in the sections titled “Executive Compensation,” “Compensation Discussion and Analysis,” “Compensation Committee Interlocks and Insider Participation,” “Compensation Committee Report,” and “Compensation of Directors,” appearing in the Company’s Definitive Proxy Statement for the 2021 Annual Meeting of Stockholders is incorporated herein by reference.

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

The information in the sections titled “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” and “Equity Compensation Plan Information” appearing in the Company’s Definitive Proxy Statement for the 2021 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 One: Election of Directors,” and “Corporate Governance, Board Composition and Board Committees” appearing in the Company’s Definitive Proxy Statement for the 2021 Annual Meeting of Stockholders is incorporated herein by reference.

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

The information under the captions “Principal Accountant Fees and Services”, “Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm” and “Ratification of Appointment of Independent Registered Public Accounting Firm” appearing in the Company’s Definitive Proxy Statement for the 2021 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

Item 15. *Exhibit and Financial Statement Schedules.*

(a)(1) Financial Statements:

The Company's financial statements appear in a separate section of this annual report, beginning on the pages referenced below:

(a)(2) Financial Statement Schedule:

The Company's consolidated financial statements, as listed under Item 15(a)(1), appear in a separate section of this annual report and are incorporated herein by this reference. The Company's financial statement schedule is as follows:

Schedule II — Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions Charged to Cost and Expenses	Deductions	Balance at End of Year
Allowance for doubtful accounts:				
Fiscal Year Ended March 31, 2021:	$ 5,133,000	$ 2,021,000	$ (3,880,000)	$ 3,274,000
Fiscal Year Ended March 31, 2020:	5,508,000	1,606,000	(1,981,000)	5,133,000
Fiscal Year Ended March 31, 2019:	4,551,000	1,875,000	(918,000)	5,508,000

(a)(3) Exhibits:

EXHIBITS

Exhibit No.	Title	Method of Filing
3.1	Fourth Amended and Restated Certificate of Incorporation of the Company	Incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 filed on August 6, 2020 (File No. 000-19291).
3.2	Second Amended and Restated Bylaws of the Company	Incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 filed on August 6, 2020 (File No. 000-19291).
4.1	Second Amended and Restated Preferred Shares Rights Agreement, dated as of November 17, 2008, by and between CorVel Corporation and Computershare Trust Company, N.A., including the original Certificate of Designation, the Certificate of Designation Increasing the Number of Shares, the form of Right Certificate (as amended) and the Summary of Rights (as amended) attached thereto as Exhibits A-1, A-2, A-3, B and C, respectively	Incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 24, 2008 (File No. 000-19291).
4.2	Description of Securities	Filed herewith.
10.1*	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 filed on August 4, 2020 (File No. 000-19291).
10.2*	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 Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 8, 2018 (File No. 000-19291), Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 filed on November 9, 2006 (File No. 000-19291), 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 June 29, 1994 (File No. 000-19291), Exhibits 99.2, 99.3, 99.4, 99.5, 99.6, 99.7 and 99.8 to the Company's Registration Statement on Form S-8 (File No. 333-94440) filed on July 10, 1995, and Exhibits 99.3 and 99.5 to the Company's Registration Statement on Form S-8 (File No. 333-58455) filed on July 2, 1998.
10.3*	Restated 1991 Employee Stock Purchase Plan, as amended	Incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 filed on November 5, 2015 (File No. 000-19291).
10.4	Fidelity Master Plan for Savings and Investment, and amendments (P) Paper filing	Incorporated herein by reference to 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.

Exhibit No.	Title	Method of Filing
10.5	Second Amended and Restated Preferred Shares Rights Agreement, dated as of November 17, 2008, by and between CorVel Corporation and Computershare Trust Company, N.A., including the original Certificate of Designation, the Certificate of Designation Increasing the Number of Shares, the form of Rights Certificate (as amended) and the Summary of Rights (as amended) attached thereto as Exhibits A-1, A-2, A-3, B and C, respectively	Incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 24, 2008 (File No. 000-19291).
10.6*†	Stock option agreement dated November 3, 2016 between the Company and Michael G. Combs, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.7*†	Stock option agreement dated November 3, 2016 between the Company and Diane J. Blaha, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.8*†	Stock option agreement dated November 3, 2016 between the Company Richard J. Schweppe, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.9*†	Stock Option Agreement dated November 2, 2017 by and between CorVel Corporation and Michael G. Combs, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.10*†	Stock Option Agreement dated November 2, 2017 by and between CorVel Corporation and Diane J. Blaha, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.11*†	Stock Option Agreement dated November 2, 2017 by and between CorVel Corporation and Michael D. Saverien, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.12*†	Stock Option Agreement dated November 2, 2017 by and between CorVel and Corporation and Maxim Shishin, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.13*†	Stock Option Agreement dated November 1, 2018 by and between CorVel Corporation and Michael G. Combs, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.14*†	Stock Option Agreement dated November 1, 2018 by and between CorVel Corporation and Diane J. Blaha, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).

Exhibit No.	Title	Method of Filing
10.15*†	Stock Option Agreement dated November 1, 2018 by and between CorVel Corporation and Michael D. Saverien, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.16*†	Stock Option Agreement dated November 1, 2018 by and between CorVel and Corporation and Maxim Shishin, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.17*†	Stock Option Agreement dated November 1, 2018 by and between CorVel and Corporation and Brandon O'Brien, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.18*†	Stock Option Agreement dated November 1, 2018 by and between CorVel and Corporation and Jennifer Yoss, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed on June 10, 2020 (File No. 000-19291).
10.19*†	Stock Option Agreement granted November 5, 2019 by and between CorVel Corporation and Michael G. Combs, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on December 31, 2019 (File No. 000-19291).
10.20*†	Stock Option Agreement granted November 5, 2019 by and between CorVel Corporation and Brandon T. O'Brien, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A filed on December 31, 2019 (File No. 000-19291).
10.21*†	Stock Option Agreement granted November 5, 2019 by and between CorVel Corporation and Diane J. Blaha, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K/A filed on December 31, 2019 (File No. 000-19291).
10.22*†	Stock Option Agreement granted November 5, 2019 by and between CorVel Corporation and Michael D. Saverien, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K/A filed on December 31, 2019 (File No. 000-19291).
10.23*†	Stock Option Agreement granted November 5, 2019 by and between CorVel Corporation and Maxim Shishin, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K/A filed on December 31, 2019 (File No. 000-19291).
10.24*†	Stock Option Agreement granted November 5, 2019 by and between CorVel Corporation and Jennifer L. Yoss, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K/A filed on December 31, 2019 (File No. 000-19291).
10.25*†	Stock Option Agreement granted November 5, 2020 by and between CorVel Corporation and Michael G. Combs, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 12, 2020 (File No. 000-19291).
10.26*†	Stock Option Agreement granted November 5, 2020 by and between CorVel Corporation and Brandon T. O'Brien, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 12, 2020 (File No. 000-19291).
10.27*†	Stock Option Agreement granted November 5, 2020 by and between CorVel Corporation and Diane J. Blaha, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 12, 2020 (File No. 000-19291).
10.28*†	Stock Option Agreement granted November 5, 2020 by and between CorVel Corporation and Maxim Shishin, providing for performance vesting.	Incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on November 12, 2020 (File No. 000-19291).
10.29*†	Stock Option Agreement granted November 5, 2020 by and between CorVel Corporation and Jennifer L. Yoss,	Incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on November

Exhibit No.	Title	Method of Filing
	providing for performance vesting.	12, 2020 (File No. 000-19291).
21.1	Subsidiaries of the Company.	Filed herewith.
23.1	Consent of Independent Registered Public Accounting Firm, Haskell & White LLP.	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.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
101.INS	Inline XBRL Instance Document	Furnished herewith.
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Furnished herewith.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Furnished herewith.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Furnished herewith.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Furnished herewith.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Furnished herewith.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	Furnished herewith.

* - Denotes management contract or compensatory plan or arrangement.

† - Certain confidential information contained in this exhibit has been omitted by means of redacting a portion of the text and replacing it with empty brackets indicated by [ ], pursuant to Regulation S-K Item 601(b)(10)(iv) of the Securities Act of 1933, as amended. Certain confidential information has been excluded from the exhibit because it (i) is not material and (ii) would likely cause competitive harm to CorVel if publicly disclosed. An unredacted copy of the exhibit will be provided on a supplemental basis to the SEC upon request.

(P) – Previously filed only in paper.

(b) Exhibits

The exhibits filed as part of this annual report are listed under Item 15(a)(3) of this annual report.

(c) Financial Statement Schedule

The Financial Statement Schedule required by Regulation S-X and Item 8 of Form 10-K is listed under Item 15(a)(2) of this annual report.

Item 16. *Form 10-K Summary.*

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

Corvel Corporation

By: /s/ Michael G. Combs
Michael G. Combs
Chief Executive Officer and President

Date: May 28, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this annual report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ V. GORDON CLEMONS V. Gordon Clemons	Chairman of the Board	May 28, 2021
/s/ MICHAEL G. COMBS Michael G. Combs	Chief Executive Officer and President (Principal Executive Officer)	May 28, 2021
/s/ BRANDON T. O'BRIEN Brandon T. O'Brien	Chief Financial Officer (Principal Financial Officer)	May 28, 2021
/s/ JENNIFER L. YOSS Jennifer L. Yoss	Vice President, Accounting (Principal Accounting Officer)	May 28, 2021
/s/ ALAN R. HOOPS Alan R. Hoops	Director	May 28, 2021
/s/ STEVEN J. HAMERSLAG Steven J. Hamerslag	Director	May 28, 2021
/s/ R. JUDD JESSUP R. Judd Jessup	Director	May 28, 2021
/s/ JEAN H. MACINO Jean H. Macino	Director	May 28, 2021
/s/ JEFFREY J. MICHAEL Jeffrey J. Michael	Director	May 28, 2021

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data for each of the five fiscal years ended March 31, 2021 have been derived from the Company's audited consolidated financial statements. The following data should be read in conjunction with the Company's consolidated financial statements, the related notes thereto, and Part II, Item 7 of this annual report, "Management's Discussion and Analysis of Financial Condition and Results of Operations". The following amounts are in thousands, except per share data and percentages.

	Fiscal Year Ended March 31,				
	2021	2020	2019	2018	2017
Income Statement Data:					
Revenues	$ 552,644	$ 592,225	$ 595,740	$ 558,350	$ 518,686
Cost of revenues	429,020	466,304	470,931	451,097	413,894
Gross profit	123,624	125,921	124,809	107,253	104,792
General and administrative	64,449	65,210	63,296	59,350	57,243
Income before income taxes	59,175	60,711	61,513	47,903	47,549
Income tax provision	12,819	13,334	14,810	12,208	18,070
Net income	$ 46,356	$ 47,377	$ 46,703	$ 35,695	$ 29,479
Net income per share:					
Basic	$ 2.59	$ 2.59	$ 2.48	$ 1.90	$ 1.52
Diluted	$ 2.55	$ 2.55	$ 2.46	$ 1.87	$ 1.51
Weighted average shares used in computing net income per share:					
Basic	17,930	18,326	18,794	18,825	19,418
Diluted	18,166	18,602	19,008	19,042	19,570
Return on beginning of year equity	24.4%	24.3%	27.3%	25.7%	22.3%
Return on beginning of year assets	11.1%	14.9%	17.0%	15.2%	13.4%

	2021	2020	2019	2018	2017
Balance Sheet Data as of March 31,					
Cash and cash equivalents	$ 139,716	$ 83,223	$ 91,713	$ 55,771	$ 28,611
Accounts receivable, net	64,722	65,767	71,336	64,940	62,841
Working capital	106,481	75,302	98,574	65,328	38,816
Total assets	424,760	416,260	318,018	274,004	235,383
Retained earnings	598,893	552,537	505,160	458,457	422,762
Treasury stock	(564,435)	(531,764)	(466,156)	(430,989)	(419,802)
Total stockholders' equity	220,402	189,711	194,805	171,176	138,646

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 certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including (without limitation) statements with respect to anticipated future operating and financial performance, including the impact of COVID-19, growth and acquisition opportunities and other similar forecasts and statements of expectation. Words such as "expects," "anticipates," "intends," "plans," "predicts," "believes," "seeks," "estimates," "potential," "continue," "strive," "ongoing," "may," "will," "would," "could," "should," and variations of these words and similar expressions, are intended to identify these forward-looking statements. Forward-looking statements made by the Company and its management are based on estimates, projections, beliefs and assumptions of management at the time of such statements and are not guarantees of future performance.

The Company disclaims any obligations to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise. Actual future performance, outcomes, and results may differ materially from those expressed in forward-looking statements made by the Company and its management as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) the impact of global pandemics, such as COVID-19; general industry and economic conditions, including a decreasing number of national claims due to a decreasing number of injured workers; competition from other managed care companies and third party administrators; the ability to expand certain areas of the Company's business; growth in the Company's sale of TPA services; shifts in customer demands; the ability of the Company to produce market-competitive software; changes in operating expenses including employee wages, benefits, and medical inflation; cost of capital and capital requirements; dependence on key personnel; the impact of possible cybersecurity incidents; existing and possible litigation and legal liability in the course of operations and the Company's ability to resolve such litigation; governmental and public policy changes, including but not limited to legislative and administrative law and rule implementation or change; the impact of recently issued accounting standards on the Company's consolidated financial statements; the continued availability of financing in the amounts and at the terms necessary to support the Company's future business and the other risks identified in Part I, Item 1A of this annual report, "Risk Factors".

Overview

CorVel Corporation is an independent nationwide provider of medical cost containment and managed care services designed to address the escalating medical costs of workers' compensation benefits, automobile insurance claims, and group health insurance benefits. The Company's services are provided to insurance companies, TPAs, governmental entities, and self-administered employers to assist them in managing the medical costs and monitoring the quality of care associated with healthcare claims.

Network Solutions Services

The Company's network solutions services are designed to reduce the price paid by its customers for medical services rendered in workers' compensation cases, automobile insurance policies, and group health insurance policies. The network solutions services offered by the Company include automated medical fee auditing, preferred provider management and reimbursement services, retrospective utilization review, facility claim review, professional review, pharmacy services, directed care services, Medicare solutions, clearinghouse services, independent medical examinations, and inpatient medical bill review. Network solutions services also includes revenue from the Company's directed care network (known as CareIQ), including imaging, physical therapy, durable medical equipment, and translation and transportation.

Patient Management Services

In addition to its network solutions services, the Company offers a range of patient management services, which involve working one-on-one with injured employees and their various healthcare professionals, employers and insurance company adjusters. Patient management services include claims management and all services sold to claims management customers, case management, 24/7 nurse triage, utilization management, vocational rehabilitation, and life care planning. The services are designed to monitor the medical necessity and appropriateness of healthcare services provided to workers' compensation and other healthcare claimants and to expedite return to work. The Company offers these services on a stand-alone basis, or as an integrated component of its medical cost containment services. Patient management services include the processing of claims for self-insured payors with respect to property and casualty insurance.

Organizational Structure

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

Business Enterprise Segments

The Company operates in one reportable operating segment, managed care. The Company's services are delivered to its customers through its local offices in each region and financial information for the Company's operations follows this service delivery model. All regions provide the Company's patient management and network solutions services to customers. Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 280-10, "Segment Reporting", establishes standards for the way that public business enterprises report information about operating segments in annual and interim consolidated financial statements. The Company's internal financial reporting is segmented geographically, as discussed above, and managed on a geographic rather than service line basis, with virtually all of the Company's operating revenue generated within the United States.

Under FASB ASC 280-10, two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if aggregation is consistent with the objective and basic principles, if the segments have similar economic characteristics, and if the segments are similar in each of the following areas: (i) the nature of products and services; (ii) the nature of the production processes; (iii) the type or class of customer for their products and services; and (iv) the methods used to distribute their products or provide their services. The Company believes each of its regions meet these criteria as each provides similar services and products to similar customers using similar methods of production and distribution.

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

Number of Working Days

We are affected by the change in working days in a given quarter. There are generally fewer working days for our employees to generate revenue in the third fiscal quarter due to employee vacations, inclement weather and holidays.

Summary of Fiscal 2021 Annual Results

The Company had revenues of $553 million for the fiscal year ended March 31, 2021, a decrease of $40 million, or 7%, compared to $592 million for the fiscal year ended March 31, 2020. This decrease was due to a decline in revenues in patient management and network solutions services, primarily due to lower bill volume and the economic impact of the COVID-19 pandemic in the United States during fiscal 2021.

During fiscal 2021, the Company's gross profit decreased to $124 million from $126 million in fiscal 2020, a decrease of $2 million, or 2%. This decrease was primarily due to the decrease of 7% in revenue mentioned above, in connection with which there was a decrease in salaries resulting from decreased headcount of 3.8% in field operations.

During fiscal 2021, the Company's general and administrative expenses decreased to $64.4 million from $65.2 million in fiscal 2020, a decrease of $0.8 million, or 1.2%. This decrease was primarily due to a decrease in legal expenses.

During fiscal 2021, the Company's net income before tax decreased to $59.2 million from $60.7 million in fiscal 2020, a decrease of $1.5 million, or 2.5%. The decrease was primarily due to a decrease in revenues.

During fiscal 2021, the Company's income tax expense decreased to $12.8 million from $13.3 million in fiscal 2020, a decrease of $0.5 million, or 3.9%. The decrease was due to a decrease in income before income taxes. The Company's effective income tax rate was 22% for fiscal years 2021 and 2020.

Diluted weighted average shares were 18.2 million shares in fiscal 2021 and 18.6 million shares in fiscal 2020, with a decrease of 436,000 shares, or 2.3%. This decrease was primarily due to the repurchase of 367,961 shares of common stock in fiscal 2021. Since commencing this program in the fall of 1996, the Company has repurchased 36,653,552 shares of its common stock through March 31, 2021, at a cost of $564 million. These repurchases were funded primarily from the Company's operating cash flows.

Diluted earnings per share was $2.55 in fiscal 2021 and in fiscal 2020. This was primarily due to a decrease in net income and a decrease in diluted weighted average shares because of shares repurchased under the Company's stock repurchase program.

COVID-19 Pandemic

The economies of the United States and other countries around the world have rapidly contracted as a result of the COVID-19 pandemic. The decreased level of economic activity and uneven economic recovery is leading to, and is likely to continue to lead to, a decline and/or volatility in exposure units and prolonged and uneven unemployment. While the full impact of the COVID-19 pandemic cannot be fully assessed at this time, the Company expects that the ongoing global economic slowdown and uneven recovery resulting from the COVID-19 pandemic could continue to have a material adverse effect on its business, results of operations, financial condition, and cash flows in one or more future quarters.

Through the March 2021 quarter, the COVID-19 pandemic continued to impact our business, even though the impact was not as significant as it was during the June and September 2020 quarters. We implemented a 10% reduction in headcount that began late in the March 2020 quarter and continued through the June 2020 quarter. We took actions intended to protect our employees and our customers that adversely affected our results. We reduced discretionary spending, including but not limited to cutting spending in planned capital expenditures, travel, recruiting, consulting and temporary help expenses. Additionally, we temporarily suspended share repurchases under our stock repurchase program, from March 21 through June 14, 2020. We did not apply for governmental loans to support our operations, but we have taken advantage of certain aspects of the CARES Act such as the deferral of payroll tax deposits through December 31, 2020. The majority of our workforce continues to work from home. The Company began realizing sequential increases in revenues during the September and December 2020 quarters, and the March 2021 quarter. Management expects this trend to continue in 2021, especially with the distribution of vaccines, but there can be no assurance that vaccines will be distributed timely or be effective, that there will not be additional surges in COVID-19 and new stay at home mandates, or that the economic recovery will continue.

The Company cannot provide any assurance that the assumptions used to estimate its liquidity requirements will remain accurate due to the unprecedented nature of the disruption to operations and the unpredictability of the COVID-19 global pandemic. As a consequence, estimates of the duration of the pandemic and the severity of the impact on future earnings and cash flows could change and have a material impact on our results of operations and financial condition. The ultimate duration and impact of the COVID-19 pandemic on the Company's business, results of operations, financial condition and cash flows is dependent on future developments, including the duration of the pandemic, repeat or cyclical outbreaks, and the related length of its impact on the global economy, which are uncertain and cannot be predicted at this time. Furthermore, the extent to which the Company's mitigation efforts are successful, if at all, is not presently ascertainable. However, the Company expects that its results of operations, including revenues, in future periods will continue to be adversely impacted by the COVID-19 pandemic and its negative effects on global economic conditions, which include a global recession.

Results of Operations

The Company derives its revenues from providing patient management and network solutions services to payors of workers' compensation benefits, automobile insurance claims, and group health insurance benefits. Patient management services include claims management and all services sold to claims management customers, case management, 24/7 nurse triage, utilization management, vocational rehabilitation, and life care planning. Network solutions services include fee schedule auditing, hospital bill auditing, pharmacy, independent medical examinations, directed care services, diagnostic imaging review services and preferred provider referral services. The percentages of total revenues attributable to patient management and network solutions services for the fiscal years ended March 31, 2021, 2020 and 2019 are listed below.

	2021	2020	2019
Patient management services	66.7%	65.3%	61.8%
Network solutions services	33.3%	34.7%	38.2%
	100.0%	100.0%	100.0%

As noted in the table above, from fiscal 2019 to fiscal 2021, the mix of the Company's revenues moved 4.9 percentage points from network solutions services to patient management services. This mix shift is primarily due to the Company's increased focus in the sale of TPA and related services, which are included within patient management services. The Company expects to have more growth in the sale of TPA and related services than in its other services because it is focusing more of its efforts, and believes the opportunities for growth in revenue is better, in this area.

The following table shows the consolidated statements of income for the fiscal years ended March 31, 2021, 2020 and 2019 and the dollar changes, as well as the percentage changes for each fiscal year. The following amounts are in thousands, except per share data and percentages.

	Fiscal 2021	Fiscal 2020	Fiscal 2019	Amount Change from Fiscal 2020 to 2021	Amount Change from Fiscal 2019 to 2020	Percent Change from Fiscal 2020 to 2021	Percent Change from Fiscal 2019 to 2020
Revenues	$ 552,644	$ 592,225	$ 595,740	$ (39,581)	$ (3,515)	(6.7%)	(0.6%)
Cost of revenues	429,020	466,304	470,931	(37,284)	(4,627)	(8.0)	(1.0)
Gross profit	123,624	125,921	124,809	(2,297)	1,112	(1.8)	0.9
General and administrative	64,449	65,210	63,296	(761)	1,914	(1.2)	3.0
Income before income taxes	59,175	60,711	61,513	(1,536)	(802)	(2.5)	(1.3)
Income tax provision	12,819	13,334	14,810	(515)	(1,476)	(3.9)	(10.0)
Net income	$ 46,356	$ 47,377	$ 46,703	$ (1,021)	$ 674	(2.2%)	1.4%
Net income per share:							
Basic	$ 2.59	$ 2.59	$ 2.48	$ -	$ 0.11	0.0%	4.4%
Diluted	$ 2.55	$ 2.55	$ 2.46	$ -	$ 0.09	0.0%	3.7%
Weighted average shares used in net income per share:							
Basic	17,930	18,326	18,794	(396)	(468)	(2.2%)	(2.5%)
Diluted	18,166	18,602	19,008	(436)	(406)	(2.3%)	(2.1%)

As previously identified in Part I, Item 1A of this annual report, “Risk Factors,” the Company’s ability to maintain or grow revenues is subject to several risks including, but not limited to, the COVID-19 pandemic, prolonged unemployment, changes in government regulations, exposure to litigation and the ability to add or retain customers. Any of these, or a combination of all of them, could have a material and adverse effect on the Company’s results of operations going forward.

The following table sets forth, for the periods indicated, the percentage of revenues represented by certain items reflected in the Company’s consolidated statements of income. The Company’s past operating results are not necessarily indicative of future operating results. The percentages for the fiscal years ended March 31, 2021, 2020 and 2019 are as follows:

Income Statement Percentages	2021	2020	2019
Revenues	100.0%	100.0%	100.0%
Cost of revenues	77.6%	78.7%	79.0%
Gross profit	22.4%	21.3%	21.0%
General and administrative	11.7%	11.0%	10.6%
Income before income taxes	10.7%	10.3%	10.4%
Income tax provision	2.3%	2.3%	2.5%
Net income	8.4%	8.0%	7.9%

Revenue

The Company derives its revenues from providing patient management and network solutions services to payors of workers’ compensation benefits, automobile insurance claims, and group health insurance benefits.

Change in Revenue

Fiscal 2021 Compared to Fiscal 2020

Revenues decreased to $553 million in fiscal 2021 from $592 million in fiscal 2020, a decrease of $40 million, or 7%. The decrease in revenues was primarily due to a decrease in network solutions services, which decreased to $184 million from $205 million, a decrease of 10.5%. Patient management services decreased to $369 million from $387 million, a decrease of 4.6%. The decrease in revenues was primarily due to lower bill volume. Due to the COVID-19 pandemic and economic shutdown, the Company saw a decrease in bill volume of 22% during fiscal 2021 compared to fiscal 2020, as well as a 2.5% decrease in workers compensation claims, which was partially offset by an increase in revenue per bill.

Fiscal 2020 Compared to Fiscal 2019

Revenues decreased to $592 million in fiscal 2020 from $596 million in fiscal 2019, a decrease of $4 million, or 1%. The decrease in revenues was due to a decrease in network solutions services, which decreased to $205 million from $228 million, a decrease of 9.7%. The decrease was due to a 4.9% decrease in the number of pharmacy services bills the Company reviewed during fiscal 2020. The decrease in revenues was offset by an increase in patient management services, which increased to $387 million from $368 million, an increase of 5.1%. The increase in patient management services was due to an increase in TPA services partially offset by a decrease in case management services to non-TPA customers. The increase in revenues from TPA services was due to a 13% increase in the number of customers, which contributed to a 3.3% increase in the total number of claims opened during the fiscal year.

Cost of Revenue

The Company's cost of revenues consists of direct expenses, costs directly attributable to the generation of revenue, and indirect costs which are incurred to support the operations in the field offices which generate the revenue. Direct expenses primarily include (i) case manager and bill review analysts' salaries, along with related payroll taxes and fringe benefits, and (ii) costs associated with independent medical examinations (known as IME), prescription drugs, and MRI, physical therapy, and durable medical equipment providers. Most of the Company's revenues are generated in offices which provide both patient management services and network solutions services. The largest of the field indirect costs are (i) manager salaries and bonuses, (ii) account executive base pay and commissions, (iii) salaries of administrative and clerical support, field systems personnel and PPO network developers, along with related payroll taxes and fringe benefits, and (iv) office rent. During fiscal 2021 and 2020, approximately 37% and 38%, respectively, of the costs incurred in the field were considered field indirect costs, which support both the patient management services and network solutions services operations of the Company's field operations.

Change in Cost of Revenue

Fiscal 2021 Compared to Fiscal 2020

The Company's cost of revenues decreased to $429 million in fiscal 2021 from $466 million in fiscal 2020, a decrease of $37 million, or 8%. The decrease in cost of revenues was primarily due to the decrease in total revenues of 7%. Additionally, the Company reduced headcount by 10% during the June 2020 quarter that was partially offset by hiring employees during the remainder of fiscal 2021 due to customer needs. In fiscal 2021, headcount in field operations decreased by 3.8% compared to fiscal 2020. Additionally, mileage, travel and meals expenses decreased by $6.6 million in fiscal 2021.

Fiscal 2020 Compared to Fiscal 2019

The Company's cost of revenues decreased to $466 million in fiscal 2020 from $471 million in fiscal 2019, a decrease of $5 million, or 1%. The decrease in cost of revenues was primarily due to revenue decreasing in pharmacy services, therefore causing a decrease in prescription costs.

General and Administrative Expense

During fiscal years 2021, 2020, and 2019, approximately 51%, 53%, and 54%, respectively, of general and administrative costs consisted of corporate systems costs, which include the corporate systems support, implementation and training, rules engine development, national IT strategy and planning, depreciation of hardware costs in the Company's corporate offices and backup data center, the Company's nationwide area network, and other systems related costs. The Company includes all IT-related costs managed by the corporate office in general and administrative whereas the field IT-related costs are included in the cost of revenues. The remaining general and administrative costs consist of national marketing, national sales support, corporate legal, corporate insurance, human resources, accounting, product management, new business development, and other general corporate expenses.

Change in General and Administrative Expense

Fiscal 2021 Compared to Fiscal 2020

General and administrative expense decreased to $64.4 million in fiscal 2021 from $65.2 million in fiscal 2020, a decrease of $0.8 million, or 1.2%. The decrease in general and administrative expense was primarily due to a decrease in legal expenses.

Fiscal 2020 Compared to Fiscal 2019

General and administrative expense increased to $65.2 million in fiscal 2020 from $63.3 million in fiscal 2019, an increase of $1.9 million, or 3.0%. The increase in general and administrative expense was primarily due to an increase in legal expenses of $1.0

million, which was primarily due to resolving customer contract issues and to a much lesser extent the Company's July 2019 security incident, and an increase in marketing expenses of $0.7 million.

Income Tax Provision

Fiscal 2021 Compared to Fiscal 2020

The Company's income tax expense decreased to $12.8 million for fiscal 2021 from $13.3 million for fiscal 2020, a decrease of $0.5 million. The Company's effective income tax rate was 22% for fiscal years 2021 and 2020. Income before income tax provision decreased to $59.2 million in fiscal 2021 from $60.7 million in fiscal 2020, a decrease of $1.5 million.

Fiscal 2020 Compared to Fiscal 2019

The Company's income tax expense decreased to $13.3 million for fiscal 2020 from $14.8 million for fiscal 2019, a decrease of $1.5 million. The Company's effective income tax rate was 22% for fiscal year 2020 and 24% for fiscal year 2019. Income before income tax provision decreased to $60.7 million in fiscal 2020 from $61.5 million in fiscal 2019, a decrease of $0.8 million. The decrease in tax rate can also be attributed to an increase of stock options exercised in the current fiscal year.

Net Income

Fiscal 2021 Compared to Fiscal 2020

The Company's net income decreased to $46.4 million in fiscal 2021 from $47.4 million in fiscal 2020, a decrease of $1.0 million, or 2.2%. This decrease was primarily due to a 7% decrease in revenues.

Fiscal 2020 Compared to Fiscal 2019

The Company's net income increased to $47.4 million in fiscal 2020 from $46.7 million in fiscal 2019, an increase of $0.7 million, or 1.4%. This increase was primarily due to a 10% decrease in income tax provision.

Earnings per Share

Fiscal 2021 Compared to Fiscal 2020

The Company's diluted earnings per share was $2.55 in fiscal 2021 and 2020. This was primarily due to a decrease in net income and a decrease in diluted weighted average shares because of shares repurchased under the Company's stock repurchase program.

Fiscal 2020 Compared to Fiscal 2019

The Company's diluted earnings per share increased to $2.55 in fiscal 2020 from $2.46 in fiscal 2019, an increase of $0.09. This increase was primarily due to an increase in net income and a decrease in diluted weighted average shares because of shares repurchased under the Company's stock repurchase program.

Liquidity and Capital Resources

The Company manages its liquidity and financial position in the context of its overall business strategy. The Company continually forecasts and manages its cash, investments, working capital balances and capital structure to meet the short- and long-term obligations of its businesses while seeking to maintain liquidity and financial flexibility. Cash flows generated from operating activities are principally from earnings before non-cash expenses. The risk of decreased operating cash flow from a decline in earnings is partially mitigated by the diversity of the Company's services, geographies and customers, and the Company has had virtually no interest-bearing debt for the past 30 years.

The Company has historically funded its operations and capital expenditures primarily from cash flow from operations, and to a lesser extent, stock option exercises. The Company's net accounts receivables have ranged from 41 to 43 days of average sales for the fiscal years ended March 31, 2021, 2020 and 2019. The Company expects days sales outstanding (known as DSO) to remain in the low to mid 40-day range. The Company's historical profit margins and historical ratio of investments in assets used in the business has allowed the Company to generate sufficient cash flow to repurchase $564 million of its common stock during the past 24 fiscal years, on inception-to-date net earnings of $599 million. The Company repurchases shares during periods of excess liquidity, which has occurred in all 30 years that the Company has been public. Should the Company have lower income or cash flows, it could reduce or eliminate repurchases under the stock repurchase program until earnings and cash flow improved. Working capital increased to $106.5 million at March 31, 2021 from $75.3 million at March 31, 2020. This is primarily due to steps the Company took in response to the COVID-19 pandemic, which included reducing its planned capital expenditures and reducing its work force. Additionally, the Company temporarily suspended share repurchases under its stock repurchase program, from March 21 through June 14, 2020. The Company did not apply for governmental loans to support the Company's operations, but has taken advantage of certain aspects of the CARES Act such as the deferral of payroll tax deposits. The Company deferred a total of $10.4 million in payroll tax deposits, half of which will be paid back by the end of calendar year 2021 and the other half will be paid back by the end of calendar year 2022.

The Company believes that, after the steps it took in response to the COVID-19 pandemic described above, cash from operations and funds from exercises of stock options granted to employees are adequate to fund existing obligations, repurchase shares of the Company's common stock under its current stock repurchase program, introduce new services, and continue to develop the Company's healthcare related services for at least the next twelve months. Should the Company have lower income or cash flows, it may reduce or eliminate repurchases under the stock repurchase program until earnings and cash flow have returned to comfortable levels. The Company regularly evaluates cash requirements for current operations, commitments, capital acquisitions, and other strategic transactions. The Company may elect to raise additional funds for these purposes, through debt or equity financings or otherwise, as appropriate. However, additional equity or debt financing may not be available when needed, with terms favorable to the Company or at all.

As of March 31, 2021, the Company had $139.7 million in cash and cash equivalents, invested primarily in short-term, interest-bearing, highly-liquid, investment-grade securities with maturities of 90 days or less.

The Company believes that the cash balance at March 31, 2021 along with anticipated internally-generated funds will be sufficient to meet the Company's expected cash requirements for at least the next twelve months.

The Company cannot provide any assurance that the assumptions used to estimate its liquidity requirements will remain accurate due to the unprecedented nature of the disruption to operations and the unpredictability of the COVID-19 global pandemic. As a consequence, estimates of the duration of the pandemic and the severity of the impact on future earnings and cash flows could change and have a material impact on our results of operations and financial condition. The ultimate duration and impact of the COVID-19 pandemic on the Company's business, results of operations, financial condition and cash flows is dependent on future developments, including the duration of the pandemic, the distribution and effectiveness of vaccines, repeat or cyclical outbreaks, and the related length of its impact on the global economy, which are uncertain and cannot be predicted at this time. Furthermore, the extent to which the Company's mitigation efforts are successful, if at all, is not presently ascertainable. However, the Company expects that its results of operations, including revenues, in future periods will continue to be adversely impacted by the COVID-19 pandemic and its negative effects on global economic conditions, which have included a global recession.

Operating Cash Flows

Fiscal 2021 Compared to Fiscal 2020

Net cash provided by operating activities increased to $94.4 million in fiscal 2021 from $80.8 million in fiscal 2020, an increase of $13.6 million. The improvement in cash from operating activities was primarily due to the payroll taxes deferral provided by the CARES Act partially offset by a decrease in net income.

Fiscal 2020 Compared to Fiscal 2019

Net cash provided by operating activities increased to $80.8 million in fiscal 2020 from $78.6 million in fiscal 2019, an increase of $2.2 million. The improvement in cash from operating activities was primarily due to a decrease in accounts receivables, offset by a change in accrued liabilities.

Investing Activities

Fiscal 2021 Compared to Fiscal 2020

Net cash flow used in investing activities decreased to $17.2 million in fiscal 2021 from $32.4 million in fiscal 2020, a decrease of $15.1 million. This decrease was due to the Company reducing its planned capital expenditures due to the COVID-19 pandemic. The Company expects to see its office space, and the associated capital expenditures, decrease over time due to more employees switching to working from home.

Fiscal 2020 Compared to Fiscal 2019

Net cash flow used in investing activities increased to $32.4 million in fiscal 2020 from $15.3 million in fiscal 2019, an increase of $17.1 million. The increase in capital purchases is primarily due to construction improvements of the building the Company purchased in the greater Portland metropolitan area during fiscal 2018, which was placed into service during fiscal 2020.

Financing Activities

Fiscal 2021 Compared to Fiscal 2020

Net cash flow used in financing activities decreased to $20.6 million in fiscal 2021 from $57.0 million in fiscal 2020, a decrease of $36.3 million. During fiscal 2021, the Company spent $33 million to repurchase 367,961 shares of its common stock (at an average price of $88.79 per share). During fiscal 2020, the Company spent $66 million to repurchase 822,353 shares of its common stock (at an average price of $79.78 per share).

If the Company continues to generate cash flow from operating activities, the Company may continue to repurchase shares of its common stock on the open market, if authorized by the Company's Board of Directors pursuant to the resumption of its stock repurchase program, or seek to identify other businesses to acquire. The Company has historically used cash provided by operating activities and from the exercise of stock options to repurchase stock. The Company expects that it may use some of the cash on the balance sheet at March 31, 2021 to repurchase additional shares of its common stock in the future.

Fiscal 2020 Compared to Fiscal 2019

Net cash flow used in financing activities increased to $57.0 million in fiscal 2020 from $27.4 million in fiscal 2019, an increase of $29.5 million. During fiscal 2020, the Company spent $66 million to repurchase 822,353 shares of its common stock (at an average price of $79.78 per share). During fiscal 2019, the Company spent $35 million to repurchase 582,159 shares of its common stock (at an average price of $60.41 per share).

Contractual Obligations

The following table sets forth our contractual obligations at March 31, 2021, which are primarily future minimum lease payments due under non-cancelable operating leases:

		For the Fiscal Years Ended March 31st, Within:			
	Total	**Less than one year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Operating leases	$58,392,000	$ 12,952,000	$20,578,000	$13,334,000	$ 11,528,000
Software licenses	1,990,000	95,000	1,895,000	—	—
Total	$60,382,000	$ 13,047,000	$22,473,000	$13,334,000	$ 11,528,000

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

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

Off-Balance Sheet Arrangements

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

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

Critical Accounting Policies

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

The following is not intended to be a comprehensive list of our accounting policies. The Company's significant accounting policies are more fully described in Note 1, "Summary of Significant Accounting Policies" in the notes to our consolidated financial statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States of America ("GAAP"), with no need for management's judgment in their application. There are also areas in which management's judgment in selecting an available alternative would not produce a materially different result.

We have identified the following accounting policies as critical to us: (i) revenue recognition, (ii) leases, (iii) allowance for uncollectible accounts, (iv) goodwill and long-lived assets, (v) accrual for self-insured costs, (vi) accounting for income taxes, (vii) legal and other contingencies, (viii) share-based compensation, and (ix) software development costs.

Revenue Recognition: The Company adopted ASC 606 using the modified retrospective method for those contracts which were not substantially completed as of the transition date, which was April 1, 2018. The reported results for the fiscal years ended March 31, 2021, 2020, and 2019 reflect the application of the guidance of ASC 606.

Revenue is recognized when control of the promised services is transferred to the Company's customers in an amount that reflects the consideration expected to be entitled to in exchange for those services. As the Company completes its performance obligations which are identified below, it has an unconditional right to consideration as outlined in the Company's contracts. Generally, the Company's accounts receivable are expected to be collected in 30 days in accordance with the underlying payment terms. For many of the Company's services, the Company typically has one performance obligation; however, it also provides the customer with an option to acquire additional services. The Company offers multiple services under its patient management and network solutions service lines. The Company typically provides a menu of offerings from which the customer may choose to purchase. The price of each service is separate and distinct and provides a separate and distinct value to the customer. Pricing is generally consistent for each service irrespective of the other services or quantities requested by the customer.

In transactions related to third-party service revenue, which includes pharmacy, directed care services and other services provided by the Company's integrated network solutions services, the Company is considered the principal, as it directs the third party, controls the specified service, performs program utilization review, directs payment to the provider, accepts the financial risk of loss associated with services rendered and combines the services provided into an integrated solution, as specified within the Company's customer contracts. The Company has the ability to influence contractual fees with customers and possesses the financial risk of loss in certain contractual obligations. These factors indicate the Company is the principal and, as such, it is required to recognize revenue gross and service partner vendor fees in the cost of revenue in the Company's consolidated income statements.

Leases: The Company adopted ASC 842 using the modified retrospective method and utilizing the effective date as the date of initial application. The reported results for the fiscal years ended March 31, 2021 and 2020 reflect the application of the guidance of ASC 842 while the reported results for the fiscal year ended March 31, 2019 were prepared under the guidance of ASC 840.

The Company determines if an arrangement includes a lease at inception. Right-of-use assets represent the Company's right to use an underlying asset for the lease term; and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of the lease, renewal date of the lease or significant remodeling of the lease space based on the present value of the remaining future minimum lease payments. Leases with a term greater than one year are recognized on the balance sheet as right-of-use assets and short-term and long-term lease liabilities, as applicable.

Operating lease liabilities and their corresponding right-of-use assets are initially recorded based on the present value of lease payments over the expected remaining lease term. The interest rate implicit in lease contracts is typically not readily determinable. As a result, we utilize our incremental borrowing rate to discount lease payments, which reflects the fixed rate at which we could borrow on a collateralized basis the amount of the lease payments in the same currency, for a similar term, in a similar economic environment. The Company's leases may include options to extend or terminate the lease which are included in the lease term when it is reasonably certain that we will exercise any such options. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

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

The Company must make significant judgments and estimates in determining contractual and bad debt allowances in any accounting period. One significant uncertainty inherent in the Company's analysis is whether its past experience will be indicative of future periods. Although the Company considers future projections when estimating contractual and bad debt allowances, the Company ultimately makes its decisions based on the best information available to it at the time the decision is made. Adverse changes in general economic conditions or trends in reimbursement amounts for the Company's services could affect the Company's contractual and bad debt allowance estimates, collection of accounts receivable, cash flows, and results of operations. One customer accounted for 10% or more of accounts receivable at March 31, 2021. No customer accounted for 10% or more of accounts receivable at March 31, 2020.

Goodwill and Long-Lived Assets: Goodwill arising from business combinations represents the excess of the purchase price over the estimated fair value of the net assets of the acquired business. Pursuant to ASC 350-10 through ASC 350-30, "Goodwill and Other Intangible Assets," goodwill is tested annually for impairment or more frequently if circumstances indicate the potential for impairment. Also, management tests for impairment of its amortizable intangible assets and long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The impairment test is conducted at the company level. The measurement of fair value is based on an evaluation of market capitalization and is further tested using a multiple of earnings approach. In projecting the Company's cash flows, management considers industry growth rates and trends and cost structure changes. Based on the Company's tests and reviews, no impairment of its goodwill, intangible assets, or other long-lived assets existed at March 31, 2021 or March 31, 2020. However, future events or changes in current circumstances could affect the recoverability of the carrying value of goodwill and long-lived assets.

Accrual for Self-insurance Costs: The Company accrues for the group medical costs and workers' compensation costs of its employees based on claims filed and an estimate of claims incurred but not reported as of each balance sheet date. The Company determines its estimated self-insurance reserves based upon historical trends along with outstanding claims information provided by its claims paying agents. However, it is possible that recorded accruals may not be adequate to cover the future payment of claims. Adjustments, if any, to estimated accruals resulting from ultimate claim payments will be reflected in earnings during the periods in which such adjustments are determined. The Company's self-insured liabilities contain uncertainties because management is required to make assumptions and judgments to estimate the ultimate cost to settle reported claims and claims incurred but not reported at the balance sheet date.

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

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

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

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with future reversals of existing taxable temporary differences, will be sufficient to fully recover the deferred tax assets. In the event that the Company determines all or part of the net deferred tax assets are not realizable in the future, the Company will make an adjustment to the valuation allowance that would be charged to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on the Company's financial condition and operating results. The significant assumptions and estimates described above are important contributors to our ultimate effective tax rate in each year.

Legal and Other Contingencies: As discussed in Part I, Item 3 of this annual report, "Legal Proceedings" and in Note 10, "Contingencies and Legal Proceedings" in the notes to our consolidated financial statements, the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. The outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty.

Share-Based Compensation: The Company accounts for share-based compensation in accordance with the provisions of ASC Topic 718 "Compensation – Stock Compensation". Under ASC 718, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). For the fiscal year ended March 31, 2021, the Company recorded share-based compensation expense of $4,978,000.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's term, and the Company's expected annual dividend yield. The Company issues performance-based stock options which vest only upon the Company's achievement of certain earnings per share targets on a calendar year basis, as determined by the Company's Board of Directors. These options were valued in the same manner as the time-based options. However, the Company only recognizes stock compensation expense to the extent that the targets are determined to be probable of being achieved, which triggers the vesting of the performance options. The Company's management believes that this valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company's stock options granted in fiscal 2021. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

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

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

Recently Issued Accounting Standards

Guidance Adopted

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes". The pronouncement simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740, "Income Taxes". The pronouncement also improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This standard is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Effective April 1, 2020, the Company adopted ASU 2019-12. Adoption of the standard did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 regarding ASC Topic 326, "Measurement of Credit Losses on Financial Instruments". The pronouncement changes the impairment model for most financial assets and will require the use of an "expected loss" model for instruments measured at amortized cost. Under this model, entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. Subsequently, the FASB issued an amendment to clarify the implementation dates and items that fall within the scope of this pronouncement. This standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has adopted this standard as of April 1, 2020. The adoption did not have a material impact on our consolidated financial statements. On an ongoing basis, the Company will contemplate forward-looking economic conditions in recording lifetime expected credit losses for the Company's financial assets measured at cost.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of CorVel Corporation

Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of CorVel Corporation (the "Company") as of March 31, 2021 and 2020, the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2021, and the related notes and financial statement schedule (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2021 and 2020, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2021, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Change in Accounting Principle

As discussed in Notes 1 and 9 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2020.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's 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 misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

Revenue Recognition - Refer to Note 2 to the Consolidated Financial Statements

Critical Audit Matter Description:

The Company recognizes revenue upon transfer of control of promised services or products to customers in an amount that reflects the consideration the Company expects to receive in exchange for those services or products. Certain services and products involve estimation of the related transaction price that, in turn, led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence related to management's judgments. Revenues that are most significantly impacted by management's estimates and judgments include (i) bill review services that contain contractual provisions that allow the customer to compensate the Company only for services that it utilizes and (ii) directed care services at period-end for which the Company has not been billed by the related provider.

How the Critical Matter was Addressed in the Audit:

The primary procedures we performed to address this critical audit matter included the following, among others:

- We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's process to estimate the most likely amount of consideration to which the Company will be entitled in exchange for transferring the promised services or products to a customer. We tested the effectiveness of certain controls over revenue recognition, including management's controls over the methodology used to determine estimated revenues.
- We tested the underlying data used by the Company to determine related bill review revenue estimates by examining customer contracts and analyzing historical utilization analyses completed by the Company. We also examined subsequent period invoicing and cash collection activities to evaluate the reasonableness of management's estimates.
- We tested significant assumptions used in management's calculations of period-end directed care revenues by analyzing historical time lag patterns between the provision of service and provider invoicing. We also examined trends associated with the number of period-end provider referrals and performed gross margin reasonableness analyses to evaluate management's estimates.
- We tested the mathematical accuracy of management's calculations of revenue and the associated timing of revenue recognized in the consolidated financial statements.

/s/ HASKELL & WHITE LLP

We have served as the Company's auditor since 2006.

Irvine, California
May 28, 2021

CORVEL CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31,	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	$ 139,716,000	$ 83,223,000
Customer deposits	56,497,000	48,991,000
Accounts receivable (less allowance for doubtful accounts of $3,274,000 at March 31, 2021 and $5,133,000 at March 31, 2020)	64,722,000	65,767,000
Prepaid expenses and income taxes	8,006,000	11,010,000
Total current assets	268,941,000	208,991,000
Property and equipment, net	70,619,000	75,900,000
Goodwill	36,814,000	36,814,000
Other intangible assets, net	2,104,000	2,540,000
Right-of-use asset, net	45,324,000	90,666,000
Deferred tax asset, net	613,000	—
Other assets	345,000	1,349,000
Total assets	$ 424,760,000	$ 416,260,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts and income taxes payable	$ 13,574,000	$ 16,363,000
Accrued liabilities	148,886,000	117,326,000
Total current liabilities	162,460,000	133,689,000
Deferred income taxes, net	—	7,764,000
Long-term lease liabilities	41,898,000	85,096,000
Total liabilities	204,358,000	226,549,000
Commitments and contingencies		
Stockholders' Equity		
Common stock, $.0001 par value: 120,000,000 shares authorized at March 31, 2021 and 2020; 54,529,642 shares issued (17,876,090 shares outstanding, net of treasury shares) and 54,254,557 shares issued (17,968,966 shares outstanding, net of treasury shares) at March 31, 2021 and March 31, 2020, respectively	3,000	3,000
Paid-in-capital	185,941,000	168,935,000
Treasury stock, at cost (36,653,552 and 36,285,591 shares at March 31, 2021 and 2020, respectively)	(564,435,000)	(531,764,000)
Retained earnings	598,893,000	552,537,000
Total stockholders' equity	220,402,000	189,711,000
Total liabilities and stockholders' equity	$ 424,760,000	$ 416,260,000

See accompanying notes to consolidated financial statements.

CORVEL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Years Ended March 31,		
	2021	2020	2019
Revenues	$ 552,644,000	$ 592,225,000	$ 595,740,000
Cost of revenues	429,020,000	466,304,000	470,931,000
Gross profit	123,624,000	125,921,000	124,809,000
General and administrative	64,449,000	65,210,000	63,296,000
Income before income taxes	59,175,000	60,711,000	61,513,000
Income tax provision	12,819,000	13,334,000	14,810,000
Net income	$ 46,356,000	$ 47,377,000	$ 46,703,000
Net income per share:			
Basic	$ 2.59	$ 2.59	2.48
Diluted	$ 2.55	$ 2.55	2.46
Weighted average shares outstanding:			
Basic	17,930,000	18,326,000	18,794,000
Diluted	18,166,000	18,602,000	19,008,000

See accompanying notes to consolidated financial statements.

CORVEL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Fiscal Years Ended March 31, 2021, 2020 and 2019

	Common Shares	Stock Amount	Paid-in-Capital	Treasury Shares	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balance – March 31, 2018	53,793,986	$ 3,000	$ 143,705,000	(34,881,079)	$ (430,989,000)	$ 458,457,000	$ 171,176,000
Stock issued under employee stock purchase plan	8,271	—	503,000	—	—	—	503,000
Stock issued under stock option plan, net of shares repurchased	218,775	—	7,241,000	—	—	—	7,241,000
Stock-based compensation expense	—	—	4,349,000	—	—	—	4,349,000
Purchase of treasury stock	—	—	—	(582,159)	(35,167,000)	—	(35,167,000)
Net income	—	—	—	—	—	46,703,000	46,703,000
Balance – March 31, 2019	54,021,032	3,000	155,798,000	(35,463,238)	(466,156,000)	505,160,000	194,805,000
Stock issued under employee stock purchase plan	8,451	—	505,000	—	—	—	505,000
Stock issued under stock option plan, net of shares repurchased	225,074	—	8,147,000	—	—	—	8,147,000
Stock-based compensation expense	—	—	4,485,000	—	—	—	4,485,000
Purchase of treasury stock	—	—	—	(822,353)	(65,608,000)	—	(65,608,000)
Net income	—	—	—	—	—	47,377,000	47,377,000
Balance – March 31, 2020	54,254,557	3,000	168,935,000	(36,285,591)	(531,764,000)	552,537,000	189,711,000
Stock issued under employee stock purchase plan	6,007	—	534,000	—	—	—	534,000
Stock issued under stock option plan, net of shares repurchased	269,078	—	11,494,000	—	—	—	11,494,000
Stock-based compensation expense	—	—	4,978,000	—	—	—	4,978,000
Purchase of treasury stock	—	—	—	(367,961)	(32,671,000)	—	(32,671,000)
Net income	—	—	—	—	—	46,356,000	46,356,000
Balance – March 31, 2021	54,529,642	$ 3,000	$ 185,941,000	(36,653,552)	$ (564,435,000)	$ 598,893,000	$ 220,402,000

See accompanying notes to consolidated financial statements.

CORVEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended March 31,		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 46,356,000	$ 47,377,000	$ 46,703,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	23,436,000	22,516,000	22,984,000
Loss on write down or disposal of property, capitalized software or investment	590,000	149,000	306,000
Stock compensation expense	4,978,000	4,485,000	4,349,000
Provision for doubtful accounts	2,021,000	1,606,000	1,875,000
Deferred income taxes	(8,376,000)	1,470,000	1,456,000
Changes in operating assets and liabilities:			
Accounts receivable	(976,000)	3,964,000	(8,271,000)
Customer deposits	(7,507,000)	(3,723,000)	(9,772,000)
Prepaid expenses and income taxes	3,003,000	(3,834,000)	(66,000)
Other assets	504,000	(595,000)	145,000
Accounts and income taxes payable	(3,355,000)	1,095,000	(1,975,000)
Accrued liabilities	31,561,000	11,885,000	20,905,000
Operating lease liabilities	2,144,000	(5,569,000)	—
Net cash provided by operating activities	94,379,000	80,826,000	78,639,000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(17,243,000)	(32,360,000)	(15,274,000)
Net cash used in investing activities	(17,243,000)	(32,360,000)	(15,274,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of employee stock purchase options	534,000	505,000	503,000
Exercise of common stock options	11,494,000	8,147,000	7,241,000
Purchase of treasury stock	(32,671,000)	(65,608,000)	(35,167,000)
Net cash used in financing activities	(20,643,000)	(56,956,000)	(27,423,000)
Net increase (decrease) in cash and cash equivalents	56,493,000	(8,490,000)	35,942,000
Cash and cash equivalents at beginning of year	83,223,000	91,713,000	55,771,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 139,716,000	$ 83,223,000	$ 91,713,000
Supplemental cash flow information			
Income taxes paid	$ 20,760,000	$ 15,077,000	$ 12,854,000
Accrual of software license purchase	$ —	$ 3,790,000	$ —

See accompanying notes to consolidated financial statements.

Note 1 — Summary of Significant Accounting Policies

Organization: CorVel Corporation ("CorVel" or "the Company"), incorporated in Delaware in 1987, is an independent nationwide provider of medical cost containment and managed care services designed to address the escalating medical costs of workers' compensation benefits, automobile insurance claims, and group health insurance benefits. The Company's services are provided to insurance companies, TPAs, governmental entities, and self-administered employers to assist them in managing the medical costs and monitoring the quality of care associated with healthcare claims.

Basis of Presentation: The consolidated financial statements include the accounts of CorVel and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to fiscal 2021 presentation. These changes had no impact on previously-reported results of operations or shareholders' equity.

The Company evaluated all subsequent events and transactions through the date of this filing.

Use of Estimates: The preparation of financial statements in compliance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements. Actual results could differ from those estimates. Significant estimates include the values assigned to intangible assets, capitalized software development, the allowance for doubtful accounts, work in process, accrual for income taxes, share-based payments related to performance-based awards, loss contingencies, estimated lives of claims for claims administration revenue recognition, estimates used in stock options valuations, and accrual for self-insurance reserves.

Cash and Cash Equivalents: Cash and cash equivalents consist of short-term, interest-bearing highly-liquid investment-grade securities with maturities of 90 days or less when purchased. The carrying amounts of the Company's financial instruments approximate their fair values at March 31, 2021 and 2020 due to the short-term nature of those instruments. Customer deposits represent cash that is expected to be returned or applied towards payment within one year through the Company's provider reimbursement services.

Fair Value of Financial Instruments: The Company applies ASC 820, "Fair Value Measurements and Disclosures," which defines fair value, establishes a framework for measuring fair value, and provides for disclosures about fair value measurements, with respect to fair value measurements of (i) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company's consolidated financial statements on a recurring basis (at least annually) and (ii) all financial assets and liabilities. ASC 820 prioritizes the inputs used in measuring fair value into the following hierarchy:

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

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

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

The carrying amount of the Company's financial instruments (i.e. cash and cash equivalents, accounts receivable, accounts payable, etc.) approximates their fair values at March 31, 2021 and 2020 due to the short-term nature of those instruments. The Company has no financial instruments that are measured at fair value on a recurring basis.

Revenue Recognition: The Company adopted ASC 606 using the modified retrospective method for those contracts which were not substantially completed as of the transition date, which was April 1, 2018. The reported results for the three fiscal years ended March 31, 2021, 2020, and 2019 reflect the application of the guidance of ASC 606.

Revenue is recognized when control of the promised services is transferred to the Company's customers in an amount that reflects the consideration expected to be entitled to in exchange for those services. As the Company completes its performance obligations which are identified in Note 2, it has an unconditional right to consideration as outlined in the Company's contracts. Generally, the Company's accounts receivable are expected to be collected in 30 days in accordance with the underlying payment terms. For many of the Company's services, the Company typically has one performance obligation; however, it also provides the customer with an option to acquire additional services. The Company offers multiple services under its patient management and network solutions service lines. The Company typically provides a menu of offerings from which the customer may choose to purchase. The price of each service is separate and distinct and provides a separate and distinct value to the customer. Pricing is generally consistent for each service irrespective of the other services or quantities requested by the customer.

In transactions related to third-party service revenue, which includes pharmacy, directed care services and other services provided by the Company's integrated network solutions services, the Company is considered the principal, as it directs the third party, controls the specified service, performs program utilization review, directs payment to the provider, accepts the financial risk of loss associated with services rendered and combines the services provided into an integrated solution, as specified within the Company's customer contracts. The Company has the ability to influence contractual fees with customers and possesses the financial risk of loss in certain contractual obligations. These factors indicate the Company is the principal and, as such, it is required to recognize revenue gross and service partner vendor fees in the cost of revenue in the Company's consolidated income statements.

Accounts Receivable: The majority of the Company's accounts receivable are due from companies in the property and casualty insurance industries, self-insured employers and governmental entities. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are generally due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Those accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable against the reserve when they become uncollectible. Accounts receivable includes $17,213,000, and $19,692,000 of unbilled receivables at March 31, 2021 and 2020, respectively. Unbilled receivables represent the amounts expected to be collected for work performed which has not yet been invoiced to the customer. Unbilled receivables are generally invoiced within one year.

Concentrations of Credit Risk: Substantially all of the Company's customers are payors of workers' compensation benefits and property and casualty insurance, which include insurance companies, third party administrators, self-insured employers and government entities. Credit losses consistently have been within management's expectations. Virtually all of the Company's cash is invested at financial institutions in amounts which exceed the FDIC insurance levels. No customer accounted for 10% or more of revenue for either fiscal 2021, 2020 or 2019. One customer accounted for 10% or more of accounts receivable at March 31, 2021. No customer accounted for 10% or more of accounts receivable at March 31, 2020.

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

Asset Classification	Estimated Useful Life
Building	40 years
Building Improvements	20 years
Land Improvements	20 years
Leasehold Improvements	Shorter of 5 years or the life of lease
Furniture and Equipment	5 to 7 years
Computer Hardware	2 to 5 years
Computer Software	3 to 5 years

The Company accounts for internally-developed software costs in accordance with ASC 350-40, "Internal Use Software". Capitalized software development costs, intended for internal use, totaled $27,902,000 (net of $120,832,000 in accumulated amortization) and $27,859,000 (net of $109,749,000 in accumulated amortization), as of March 31, 2021 and 2020, respectively. These costs are included in computer software in property and equipment and are amortized over a period of five years.

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

Leases: The Company adopted ASC 842 using the modified retrospective method and utilizing the effective date as the date of initial application. The reported results for the fiscal years ended March 31, 2021 and 2020 reflect the application of the guidance of ASC 842 while the reported results for the fiscal year ended March 31, 2019 were prepared under the guidance of ASC 840.

The Company determines if an arrangement includes a lease at inception. Right-of-use assets represent the Company's right to use an underlying asset for the lease term; and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of the lease, renewal date of the lease or significant remodeling of the lease space based on the present value of the remaining future minimum lease payments. Leases with a term greater than one year are recognized on the balance sheet as right-of-use assets and short-term and long-term lease liabilities, as applicable.

Operating lease liabilities and their corresponding right-of-use assets are initially recorded based on the present value of lease payments over the expected remaining lease term. The interest rate implicit in lease contracts is typically not readily determinable. As a result, we utilize our incremental borrowing rate to discount lease payments, which reflects the fixed rate at which we could borrow on a collateralized basis the amount of the lease payments in the same currency, for a similar term, in a similar economic environment. The Company's leases may include options to extend or terminate the lease which are included in the lease term when it is reasonably certain that we will exercise any such options. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Goodwill and Indefinite Lived Long-Lived Assets: The Company accounts for its business combinations in accordance with the ASC 805-10 through ASC 805-50, "Business Combinations," which (i) requires that the purchase method of accounting be applied to all business combinations and (ii) addresses the criteria for initial recognition of intangible assets and goodwill. In accordance with ASC 350-10 through ASC 350-30, goodwill and other intangible assets with indefinite lives are not amortized but are tested for impairment annually at December 31, 2020, or more frequently if circumstances indicate the possibility of impairment. If the carrying value of goodwill or an intangible asset exceeds its fair value, an impairment loss will be recognized. Based on the Company's tests and reviews, no impairment of its goodwill, intangible assets or other long-lived assets existed at March 31, 2021. However, future events or changes in current circumstances could affect the recoverability of the carrying value of goodwill and long-lived assets. Goodwill amounted to $36,814,000 (net of accumulated amortization of $2,069,000) at March 31, 2021 and at March 31, 2020.

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

Income Taxes: The Company provides for income taxes in accordance with provisions specified in ASC 740, "Accounting for Income Taxes". Accordingly, deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities. These differences will result in taxable or deductible amounts in the future, based on tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. In making an assessment regarding the probability of realizing a benefit from these deductible differences, management considers the Company's current and past performance, the market environment in which the Company operates, tax-planning strategies and the length of carry-forward periods for loss carry-forwards, if any. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that are more likely than not to be realized. Further, the Company accrues for income tax issues not yet resolved with federal, state and local tax authorities, when it appears more likely than not that a tax liability has been incurred.

Share-Based Compensation: The Company accounts for share-based compensation in accordance with the provisions of ASC Topic 718 "Compensation – Stock Compensation". Under ASC 718, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant). The Company issues performance-based stock options which vest only upon the Company's achievement of certain earnings per share targets on a calendar year basis, as determined by the Company's Board of Directors. These options were valued in the same manner as the time-based options. However, the Company only recognizes stock compensation expense to the extent that the targets are determined to be probable of being achieved, which triggers the vesting of the performance options.

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

Earnings per Share: Earnings per common share-basic is based on the weighted average number of common shares outstanding during the period. Earnings per common shares-diluted is based on the weighted average number of common shares and common share equivalents outstanding during the period. In calculating earnings per share, earnings are the same for the basic and diluted calculations. Weighted average shares outstanding is greater for diluted earnings per share due to the effect of stock options.

The difference between the basic weighted average shares and the diluted weighted average shares for each of the fiscal years ended March 31, 2021, 2020 and 2019 is as follows:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Basic weighted average shares	17,930,000	18,326,000	18,794,000
Treasury stock impact of stock options	236,000	276,000	214,000
Diluted weighted average shares	18,166,000	18,602,000	19,008,000

Recently Issued Accounting Standards

Guidance Adopted

In December 2019, the FASB issued ASU 2019-12, “Simplifying the Accounting for Income Taxes”. The pronouncement simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740, “Income Taxes”. The pronouncement also improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This standard is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Effective April 1, 2020, the Company adopted ASU 2019-12. Adoption of the standard did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 regarding ASC Topic 326, “Measurement of Credit Losses on Financial Instruments”. The pronouncement changes the impairment model for most financial assets and will require the use of an "expected loss" model for instruments measured at amortized cost. Under this model, entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. Subsequently, the FASB issued an amendment to clarify the implementation dates and items that fall within the scope of this pronouncement. This standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has adopted this standard as of April 1, 2020. The adoption did not have a material impact on our consolidated financial statements. On an ongoing basis, the Company will contemplate forward-looking economic conditions in recording lifetime expected credit losses for the Company’s financial assets measured at cost.

Note 2 – Revenue Recognition

Revenue from Contracts with Customers

Revenue is recognized when control of the promised services is transferred to the Company’s customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. As the Company completes its performance obligations, which are identified below, it has an unconditional right to consideration as outlined in the Company’s contracts. Generally, the Company’s accounts receivable are expected to be collected in 30 days in accordance with the underlying payment terms.

The Company generates revenue through its patient management and network solutions service lines. The Company operates in one reportable operating segment, managed care.

Patient Management Service Line

The patient management service line provides services primarily related to workers' compensation claims management and case management. This service line also includes additional services such as accident and health claims programs. Each claim referred by the customer is considered an additional optional purchase of claims management services under the agreement with the customer. The transaction price is readily available from the contract and is fixed for each service. Revenue is recognized over time as services are provided as the performance obligations are satisfied through the effort expended to research, investigate, evaluate, document, and report the claim and control of these services is transferred to the customer. Revenue is recognized based on historical claim closure rates and claim type applied utilizing a portfolio approach based on time elapsed for these claims, generally between three and fifteen months. The Company believes this approach reasonably reflects the transfer of the claims management services to its customer.

The Company's obligation to manage claims and cases under the patient management service line can range from less than one year to multi-year contracts. They are generally one year under the terms of the contract; however, many of these contracts contain auto-renewal provisions and the Company's customer relationships can span multiple years. Under certain claims management agreements, the Company receives consideration from a customer at contract inception prior to transferring services to the customer, however, the Company would begin performing services immediately. The period between a customer's payment of consideration and the completion of the promised services is generally less than one year. There is no difference between the amount of promised consideration and the cash selling price of the promised services. The fee is billed upfront by the Company in order to provide customers with simplified and predictable ways of purchasing the Company's services.

The patient management service line also offers the services of case managers who provide administration services by proactively managing medical treatment for claimants while facilitating an understanding of and participation in their rehabilitation process. Revenue for case management services is recognized over time as the performance obligations are satisfied through the effort expended to manage the medical treatment for claimants and control of these services is transferred to the customer. Case management services are generally billed based on time incurred, are considered variable consideration, and revenue is recognized at the amount in which the Company has the right to invoice for services performed. The Company believes this approach reasonably reflects the transfer of the case management service to the customer.

Network Solutions Service Line

The network solutions service line consists primarily of medical bill review and third-party services. Medical bill review services provide an analysis of medical charges for customers' claims to identify opportunities for savings. Medical bill review services revenues are recognized at a point in time when control of the service is transferred to the customer. Revenue is recognized based upon the transfer of the results of the medical bill review service to the customer as this is the most accurate depiction of the transfer of the service to the customer. Medical bill review revenues are variable, generally based on performance metrics set forth in the underlying contracts. Each period, the Company bases its estimates on a contract-by-contract basis. The Company makes its best estimate of amounts the Company has earned and expects to be collected using historical averages and other factors to project such revenues. Variable consideration is recognized in the amount that the Company concludes is probable that a significant revenue reversal will not occur in future periods.

Third-party services revenue includes pharmacy, directed care services and other services, and includes amounts received from customers compensating the Company for certain third-party costs associated with providing its integrated network solutions services. The Company is considered the principal in these transactions as it directs the third party, controls the specified service and its pricing, performs program utilization review, directs payment to the provider, accepts the financial risk of loss associated with services rendered and combines the services provided into an integrated solution, as specified within the Company's customer contracts. The Company has the ability to influence contractual fees with customers and possesses the financial risk of loss in certain contractual obligations. These factors indicate the Company is the principal and, as such, it is required to recognize revenue gross and service partner vendor fees in the operating expense in the Company's consolidated statements of income.

The following table presents revenues disaggregated by service line for the fiscal years ended March 31, 2021 and 2020:

	2021	2020	2019
Patient management services	$368,853,000	$386,814,000	$368,198,000
Network solutions services	183,791,000	205,411,000	227,542,000
Total services	$552,644,000	$592,225,000	$595,740,000

Arrangements with Multiple Performance Obligations

For many of the Company's services, the Company typically has one performance obligation; however, the Company also provides the customer with an option to acquire additional services. The Company offers multiple services under its patient management and network solutions service lines. The Company typically provides a menu of offerings from which the customer may choose to purchase. The price of each service is separate and distinct and provides a separate and distinct value to the customer. Pricing is generally consistent for each service irrespective of the other services or quantities requested by the customer.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivables, unbilled receivables, and contract liabilities (reported as deferred revenues) on the Company's consolidated balance sheets. Unbilled receivables are due to the Company unconditionally for services already rendered except for physical invoicing and the passage of time. Invoicing requirements vary by customer contract, but substantially all unbilled revenues are billed within one year.

	March 31, 2021	March 31, 2020
Billed receivables	$50,783,000	$51,208,000
Allowance for doubtful accounts	(3,274,000)	(5,133,000)
Unbilled receivables	17,213,000	19,692,000
Accounts receivable, net	$64,722,000	$65,767,000

When the Company receives consideration from a customer prior to transferring services to the customer under the terms of certain claims management agreements, it records deferred revenues on the Company's consolidated balance sheets, which represents a contract liability.

Certain services, such as claims management, are provided under fixed-fee service agreements and require the Company to manage claims over a contract period, typically for one year with the option for auto renewal, with the fixed fee renewing on the anniversary date of such contracts. The Company recognizes deferred revenues as revenues when it performs services and transfers control of the services to the customer and satisfies the performance obligation which it determines utilizing a portfolio approach. For all fixed fee service agreements, revenues are recognized over the expected service periods by type of claim.

The table below presents the deferred revenues balance and the significant activity affecting deferred revenues during the fiscal year ended March 31, 2021:

	March 31, 2021
Beginning balance at April 1, 2020	$ 17,645,000
Additions	37,970,000
Revenue recognized from beginning of period	(8,844,000)
Revenue recognized from additions	(24,257,000)
Ending balance at March 31, 2021	$ 22,514,000

Remaining Performance Obligations

As of March 31, 2021, the Company had $22.5 million of remaining performance obligations related to claims and non-claims services for which the price is fixed. Remaining performance obligations consist of deferred revenues. The Company expects to recognize approximately 98% of its remaining performance obligations as revenues within one year and the remaining balance thereafter. See the discussion below regarding the practical expedients elected for the disclosure of remaining performance obligations.

Costs to Obtain a Contract

The Company has an internal sales force compensation program where remuneration is based solely on the revenues recognized in the period and does not represent an incremental cost to the Company which provides a future benefit expected to be longer than one year and would meet the criteria to be capitalized and presented on the Company's consolidated balance sheets.

Practical Expedients Elected

As a practical expedient, the Company does not adjust the consideration in a contract for the effects of a significant financing component. It expects, at contract inception, that the period between a customer's payment of consideration and the transfer of promised services to the customer will be one year or less.

For patient management services that are billed on a time-and-expense incurred or per unit basis and for which revenue is recognized over time, the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

The Company does not disclose the value of remaining performance obligations for (i) contracts for which it recognizes revenue at the amount to which it has the right to invoice for services performed, and (ii) contracts with variable consideration allocated entirely to a single performance obligation.

Note 3 — Stock Options and Stock-Based Compensation

Under the Company's Restated Omnibus Incentive Plan (formerly the Restated 1988 Executive Stock Option Plan) ("the Plan") as in effect at March 31, 2021, options exercisable for up to 20,615,000 shares of the Company's common stock may be granted over the life of the Plan to key employees, non-employee directors, and consultants at exercise prices not less than the fair market value of the common stock on the date of grant. Options granted under the Plan are non-statutory stock options and generally vest 25% one year from the date of grant, with the remaining 75% vesting ratably each month for the next 36 months. The options granted to employees and the Company's Board of Directors expire at the end of five years and ten years from date of grant, respectively. All options granted in fiscal 2021 and 2020 were granted with an exercise price equal to the fair value of the Company's common stock on the grant date.

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model with the assumptions included in the table below. The Company uses historical data, among other factors, to estimate the expected volatility, the expected dividend yield, and the expected option life. Upon adoption of ASU 2016-09, the Company accounts for forfeitures as they occur, rather than estimate expected forfeitures. The risk-free rate is based on the interest rate paid on a U.S. Treasury issue with a term similar to the estimated life of the option.

The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for the fiscal years ended March 31, 2021, 2020 and 2019:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Expected volatility	34%	33%	34%
Risk free interest rate	0.21% to 0.46%	1.42% to 2.33%	2.46% to 2.96%
Dividend yield	0.0%	0.0%	0.0%
Weighted average option life	4.4 to 4.5 years	4.4 to 4.5 years	4.4 to 4.5 years

For the fiscal years ended March 31, 2021, 2020 and 2019, the Company recorded share-based compensation expense of $4,978,000, $4,485,000, and $4,349,000, respectively. The table below shows the amounts recognized in the financial statements for the fiscal years ended March 31, 2021, 2020 and 2019.

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Cost of revenue	$ 2,020,000	$ 2,028,000	$ 1,896,000
General and administrative	2,958,000	2,457,000	2,453,000
Total cost of stock-based compensation included in income before income taxes	4,978,000	4,485,000	4,349,000
Amount of income tax benefit recognized	1,057,000	985,000	1,048,000
Amount charged to net income	$ 3,921,000	$ 3,500,000	$ 3,301,000
Effect on basic earnings per share	$ 0.22	$ 0.19	$ 0.18
Effect on diluted earnings per share	$ 0.22	$ 0.19	$ 0.17

The following table summarizes information for all stock options for the fiscal years March 31, 2021, 2020 and 2019:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Options outstanding – beginning of fiscal year	1,029,103	1,058,411	1,064,439
Options granted	234,175	271,575	290,300
Options exercised	(278,094)	(235,932)	(250,604)
Options cancelled/forfeited	(48,026)	(64,951)	(45,724)
Options outstanding – end of fiscal year	937,158	1,029,103	1,058,411
During the fiscal year, weighted average exercise price of:			
Options granted	$ 81.12	$ 79.49	$ 57.27
Options exercised	$ 44.17	$ 38.34	$ 36.44
Options cancelled/forfeited	$ 61.26	$ 59.87	$ 36.71
At the end of fiscal year:			
Price range of outstanding options	$21.87-$103.31	$20.08-$88.22	$12.71-$62.31
Weighted average exercise price per share	$ 64.28	$ 54.87	$ 45.17
Options available for future grants	880,542	316,691	523,415
Exercisable options	421,964	468,107	440,386

The following table summarizes the status of stock options outstanding and exercisable at March 31, 2021:

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	Exercisable Options – Weighted Average Exercise Price
$21.87 to $49.40	253,107	2.18	$ 39.70	226,736	$ 38.65
$49.41 to $59.32	247,080	2.86	57.14	122,803	57.97
$59.33 to $87.49	263,715	4.11	77.66	65,983	76.49
$87.50 to $103.31	173,256	4.52	89.97	6,442	88.22
Total	937,158	3.34	$ 64.28	421,964	$ 50.95

The following table summarizes the status of all outstanding options at March 31, 2021, and changes during the fiscal year then ended:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value as of March 31, 2021
Options outstanding, March 31, 2020	1,029,103	$ 54.87		
Granted	234,175	81.12		
Exercised	(278,094)	44.17		
Cancelled – forfeited	(43,436)	62.99		
Cancelled – expired	(4,590)	44.93		
Options outstanding, March 31, 2021	937,158	$ 64.28	3.34	$ 35,924,719
Options vested and expected to vest	772,156	$ 52.45	3.33	$ 33,914,366
Ending exercisable	421,964	$ 50.95	2.48	$ 21,790,325

The weighted average fair value of options granted during fiscal 2021, 2020 and 2019 was $23.24, $22.99, and $19.83, respectively. The total intrinsic value of options exercised during fiscal years 2021, 2020 and 2019 was $12,272,000, $10,281,000, and $5,817,000 respectively.

Included in the above-noted stock option grants and stock compensation expense are performance-based stock options which vest only upon the Company's achievement of certain earnings per share targets on a calendar year basis, as determined by the Company's Board of Directors. These options were valued in the same manner as the time-based options. However, the Company only recognizes stock compensation expense to the extent that the targets are determined to be probable of being achieved, which triggers the vesting of the performance options. During the fiscal years ended March 31, 2021, 2020 and 2019, the Company recognized stock compensation expense for performance-based options in the amount of $2,080,000, $1,625,000, and $1,631,000, respectively.

The Company received $11,494,000, $8,147,000, and $7,241,000 of cash receipts from the exercise of stock options during fiscal 2021, 2020 and 2019, respectively. As of March 31, 2021, $5,689,000 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted average period of 3 years.

Note 4 — Property and Equipment

Property and equipment, net consisted of the following at March 31, 2021 and 2020:

	2021	2020
Computer software	$ 163,829,000	$ 150,780,000
Office equipment and computers	66,714,000	66,398,000
Land, building and improvements	11,081,000	11,048,000
Leasehold improvements	17,562,000	14,962,000
	259,186,000	243,188,000
Less: accumulated depreciation and amortization	(188,567,000)	(167,288,000)
	$ 70,619,000	$ 75,900,000

Depreciation expense totaled $23,001,000, $22,081,000 and $22,544,000 for the fiscal years ended March 31, 2021, 2020 and 2019, respectively.

Note 5 — Accounts and Income Taxes Payable and Accrued Liabilities

Accounts and income taxes payable consisted of the following at March 31, 2021 and 2020:

	2021	2020
Accounts payable	$ 12,353,000	$ 15,145,000
Income taxes payable	1,221,000	1,218,000
	$ 13,574,000	$ 16,363,000

Accrued liabilities consisted of the following at March 31, 2021 and 2020:

	2021	2020
Payroll, payroll taxes and employee benefits	$ 43,998,000	$ 26,024,000
Customer deposits	56,498,000	48,991,000
Accrued professional service fees	7,016,000	5,919,000
Self-insurance accruals	3,704,000	3,248,000
Deferred revenue	22,514,000	17,645,000
Operating lease liabilities	12,765,000	13,223,000
Other	2,391,000	2,276,000
	$148,886,000	$117,326,000

Note 6 — Income Taxes

The income tax provision consisted of the following for the fiscal years ended March 31, 2021, 2020 and 2019:

	2021	2020	2019
Current — Federal	$16,608,000	$ 9,212,000	$10,233,000
Current — State	4,587,000	2,652,000	3,121,000
Subtotal	21,195,000	11,864,000	13,354,000
Deferred — Federal	(6,809,000)	1,418,000	941,000
Deferred — State	(1,567,000)	52,000	515,000
Subtotal	(8,376,000)	1,470,000	1,456,000
	$12,819,000	$13,334,000	$14,810,000

The following is a reconciliation of the income tax provision from the statutory federal income tax rate to the effective rate for the fiscal years ended March 31, 2021, 2020 and 2019:

	2021	2020	2019
Income taxes at federal statutory rate	$12,427,000	$12,749,000	$12,918,000
State income taxes, net of federal benefit	3,102,000	2,243,000	2,848,000
Uncertain tax positions	(693,000)	(263,000)	(175,000)
Permanent items and tax credits	(2,018,000)	(1,632,000)	(666,000)
Adjustments to returns as filed	192,000	110,000	131,000
Valuation allowance	(191,000)	127,000	317,000
Impact of tax reform	—	—	(563,000)
	$12,819,000	$13,334,000	$14,810,000

Deferred tax assets and liabilities at March 31, 2021 and 2020 are, as follows:

	2021	2020
Deferred tax assets:		
Accrued liabilities not currently deductible	$ 7,908,000	$ 5,640,000
Allowance for doubtful accounts	849,000	1,293,000
Stock-based compensation	2,242,000	2,058,000
Deferred lease liability	14,080,000	24,765,000
Deferred payroll taxes	2,693,000	—
Other	877,000	938,000
Deferred tax assets	28,649,000	34,694,000
Deferred tax liabilities:		
Excess of book over tax basis of fixed assets	(9,166,000)	(13,024,000)
Intangible assets	(4,820,000)	(4,507,000)
Right-of-use asset	(11,668,000)	(22,837,000)
Accrued revenue	(1,526,000)	(1,143,000)
Other	(367,000)	(267,000)
Total deferred tax liabilities	(27,547,000)	(41,778,000)
Valuation allowance	(489,000)	(680,000)
Deferred tax liabilities	(28,036,000)	(42,458,000)
Net deferred tax assets (liabilities)	$ 613,000	$ (7,764,000)

There were no prepaid expenses and taxes at March 31, 2021. Prepaid expenses and taxes were $3,870,000 at March 31, 2020. Accounts and income taxes payable include $696,000 at March 31, 2021, for income taxes due in the first quarter of the following fiscal year.

A reconciliation of the financial statement recognition and measurement of uncertain tax positions during the current fiscal year is as follows:

Balance as of March 31, 2020	$ 1,012,000
Additions based on tax positions related to the current year	—
Additions for tax positions of prior years	—
Reductions for tax positions related to the current year	—
Reductions for tax positions of prior years	(594,000)
Balance as of March 31, 2021	$ 418,000

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the fiscal years ended March 31, 2021, 2020 and 2019, the Company recognized approximately $(99,000), $(10,000) and $22,000 in interest and penalties, respectively. As of March 31, 2021, 2020 and 2019, accrued interest and penalties related to uncertain tax positions were $107,000, $206,000 and $216,000, respectively.

The tax fiscal years from 2017-2020 remain open to examination by the major taxing jurisdictions to which the Company is subject.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted into law. The Company does not intend to apply for governmental loans from the CARES Act or any other governmental programs to support the Company's operations. The Company is taking advantage of certain aspects of the CARES Act such as the deferral of payroll tax deposits and continuing to evaluate the other provisions of the CARES Act.

Note 7 — Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (as amended, "ESPP") which allows employees of the Company and its subsidiaries to purchase shares of common stock on the last day of two six-month purchase periods (i.e. March 31 and September 30) at a purchase price which is 95% of the closing sale price of shares as quoted on NASDAQ on the last day of such purchase period. Employees are allowed to contribute up to 20% of their gross pay. A maximum of 2,850,000 shares have been authorized for issuance under the ESPP. As of March 31, 2021, 2,492,572 shares had been issued pursuant to the ESPP. Summarized ESPP information is as follows:

	2021	2020	2019
Employee contributions	$ 534,000	$ 505,000	$ 503,000
Shares acquired	6,007	8,451	8,271
Average purchase price	$ 88.85	$ 59.70	$ 59.55

Note 8 — Treasury Stock

During each of the three fiscal years ended March 31, 2021, the Company continued to repurchase shares of its common stock under a program originally approved by the Company's Board of Directors in 1996. Including a 1,000,000 share expansion authorized in May 2021 by the Company's Board of Directors, the total number of shares of common stock authorized to be repurchased over the life of the program is 38,000,000 shares of common stock. Purchases may be made from time to time depending on market conditions and other relevant factors. The share repurchases for the fiscal years ended March 31, 2021, 2020 and 2019 and cumulatively since inception of the authorization, are as follows:

	2021	2020	2019	Cumulative
Shares repurchased	367,961	822,353	582,159	36,653,552
Cost	$ 32,671,000	$ 65,608,000	$ 35,167,000	$564,435,000
Average price	$ 88.79	$ 79.78	$ 60.41	$ 15.40

During the period subsequent to March 31, 2021, through the date of filing this annual report, the Company repurchased 64,752 shares for $7.4 million, or an average of $114.25 per share. The repurchased shares were recorded as treasury stock, at cost, and are available for general corporate purposes. The repurchases were primarily financed from cash generated from operations and from cash proceeds from the exercise of stock options.

Note 9 – Leases

The Company determines if an arrangement is, or contains, a lease at contract inception. These lease agreements have remaining lease terms of 1 to 10 years. The Company recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the unpaid lease payments as of the lease commencement date. Key estimates and judgments include how the Company determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) the lease term, and (3) lease payments.

ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, the Company cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, the Company generally uses its incremental borrowing rate as the discount rate for the lease. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Because the Company does not generally borrow on a collateralized basis, it uses quoted interest rates obtained from financial institutions as an input to derive an appropriate incremental borrowing rate, adjusted for the amount of the lease payments, the lease term, and the effect on that rate of designating specific collateral with a value equal to the unpaid lease payments for that lease.

The Company's lease agreements may include options to extend the lease following the initial term. When adopting ASC 842, the Company determined that it was reasonably certain it would exercise the option to renew; accordingly, these options were considered in determining the initial lease term. The Company elected the practical expedient of hindsight in determining the option to renew. The Company has since reassessed the assumption of the renewal term and determined that due to the COVID-19 pandemic, the Company is expecting more of the workforce to be working from home permanently. Therefore, expecting a reduction in overall square footage of office space, the Company no longer believed it is reasonable certain it will exercise most of its options to renew, and was therefore, removed the renewal term of several lease obligations. The subsequent re-measurement reduced the right-of-use asset and related lease liability on the consolidated balance sheet, but had an immaterial impact on the income statement.

For lease agreements entered into or reassessed after the adoption of ASC 842, the Company has elected the practical expedient to account for the lease and non-lease components as a single lease component.

Variable lease payments associated with the Company's leases are recognized upon occurrence of the event, activity, or circumstance in the lease agreement on which those payments are assessed.

Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term.

The components of lease expenses are as follows:

	March 31, 2021	March 31, 2020
Operating lease expense	$ 15,591,000	$ 14,992,000
Finance lease expense	77,000	—
Short-term lease expense	174,000	323,000
Variable lease expense	328,000	124,000
Total lease expenses	$ 16,170,000	$ 15,439,000

The following table presents assets and liabilities recorded on the Company's consolidated balance sheets related to its operating leases:

	March 31, 2021	March 31, 2020
Right-of-use asset, net	$ 45,324,000	$ 90,666,000
Short-term lease liability	$ 12,765,000	$ 13,223,000
Long-term lease liability	41,898,000	85,096,000
Total lease liabilities	$ 54,663,000	$ 98,319,000
Weighted average remaining lease term	5.42 years	8.27 years
Weighted average finance lease term	4.25 years	—
Weighted average discount rate	3.9%	4.0%

Supplemental cash flow information related to operating leases for fiscal years ended March 31, 2021 and 2020 were as follows:

	March 31, 2021	March 31, 2020
Cash paid for amounts included in the measurement of operating lease liabilities	$ 15,218,000	$ 14,992,000
Operating lease liabilities arising from obtaining ROU assets	$ 59,145,000	$ 110,606,000
Finance lease liabilities arising from obtaining ROU assets	$ 358,000	$ —
Reductions to ROU assets resulting from reductions to operating lease liabilities	$ 36,145,000	$ 8,354,000

As of March 31, 2021, maturities of operating and financing lease liabilities for each of the next five years and thereafter are as follows:

2022	$ 14,217,000
2023	12,280,000
2024	8,649,000
2025	7,639,000
2026	5,858,000
Thereafter	12,425,000
Total lease payments	61,068,000
Less interest	(6,405,000)
Total lease liabilities	$ 54,663,000

As of March 31, 2021, the Company has approximately $5.2 million of additional operating lease commitments that have not yet commenced. These leases commence in 2021 and have lease terms between 2 years and 5 years.

Note 10 — Contingencies and Legal Proceedings

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

Note 11 — Retirement Savings Plan

The Company maintains a retirement savings plan for its employees, which is a qualified plan under Section 401(k) of the Internal Revenue Code. Full-time employees that meet certain requirements are eligible to participate in the plan. Employer contributions are made annually, primarily at the discretion of the Company's Board of Directors. Contributions of $853,000, $829,000 and $777,000 were charged to operations for the fiscal years ended March 31, 2021, 2020 and 2019, respectively.

Note 12 — Shareholder Rights Plan

During fiscal 1997, the Company's Board of Directors approved the adoption of its Shareholder Rights Plan. The Shareholder Rights Plan provides for a dividend distribution to the Company's shareholders of one preferred stock purchase right for each outstanding share of the Company's common stock held by such shareholder (as used in this Note 12, the "right" or the "rights"), only in the event of certain takeover-related events. In April 2002, the Company's Board of Directors approved an amendment to the Shareholder Rights Plan to extend the expiration date of the rights to February 10, 2012, set the exercise price of each right at $118, and enable Fidelity Management & Research Company and its affiliates to purchase up to 18% of the shares of common stock of the Company without triggering the rights, with the limitations under the Shareholder Rights Plan remaining in effect for all other stockholders of the Company. In November 2008, the Company's Board of Directors approved an amendment to the Shareholder Rights Plan to extend the expiration date of the rights to February 10, 2022, remove the ability of Fidelity Management & Research Company and its affiliates to purchase up to 18% of the shares of common stock of the Company without triggering the rights, substitute Computershare Trust Company, N.A. as the rights agent and effect certain technical changes to the Shareholder Rights Plan.

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

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

Note 13 — Line of Credit

The Company's revolving credit facility expired in September 2019, and the Company chose not to renew its line of credit agreement with a financial institution.

Note 14 — Segment Reporting

The Company derives the majority of its revenues from providing patient management and network solutions services to payors of workers' compensation benefits, automobile insurance claims and group health insurance benefits. Patient management services include claims administration, utilization review, medical case management, and vocational rehabilitation. Network solutions services include fee schedule auditing, hospital bill auditing, coordination of independent medical examinations, diagnostic imaging review services and preferred provider referral services. The percentages of revenues attributable to patient management and network solutions services for the fiscal years ended March 31, 2021, 2020 and 2019 are listed below.

	2021	2020	2019
Patient management services	66.7%	65.3%	61.8%
Network solutions services	33.3%	34.7%	38.2%
	100.0%	100.0%	100.0%

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

Under ASC 280-10, two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if aggregation is consistent with the objective and basic principles, if the segments have similar economic characteristics, and if the segments are similar in each of the following areas: (i) the nature of products and services, (ii) the nature of the production processes, (iii) the type or class of customer for their products and services, and (iv) the methods used to distribute their products or provide their services. The Company believes each of the Company's regions meet these criteria as they provide similar managed care services to similar customers using similar methods of production and distribution. All of the Company's regions perform both patient management and network solutions services.

Because the Company believes it meets each of the criteria set forth above and each of the Company's regions has similar economic characteristics, the Company aggregates its results of operations in one reportable operating segment.

Note 15 — Other Intangible Assets

Other intangible assets consisted of the following at March 31, 2021:

Item	Life	Cost	Fiscal 2021 Amortization Expense	Accumulated Amortization at March 31, 2021	Cost, Net of Accumulated Amortization at March 31, 2021
Covenant Not to Compete	5 years	$ 775,000	$ —	$ 775,000	$ —
Customer Relationships	18-20 years	7,922,000	421,000	5,836,000	2,086,000
Third Party Administrator Licenses	15 years	204,000	14,000	186,000	18,000
Total		$ 8,901,000	$ 435,000	$ 6,797,000	$ 2,104,000

Other intangible assets consisted of the following at March 31, 2020:

Item	Life	Cost	Fiscal 2020 Amortization Expense	Accumulated Amortization at March 31, 2020	Cost, Net of Accumulated Amortization at March 31, 2020
Covenant Not to Compete	5 years	$ 775,000	$ —	$ 775,000	$ —
Customer Relationships	18-20 years	7,922,000	421,000	5,414,000	2,508,000
Third Party Administrator Licenses	15 years	204,000	14,000	172,000	32,000
Total		$ 8,901,000	$ 435,000	$ 6,361,000	$ 2,540,000

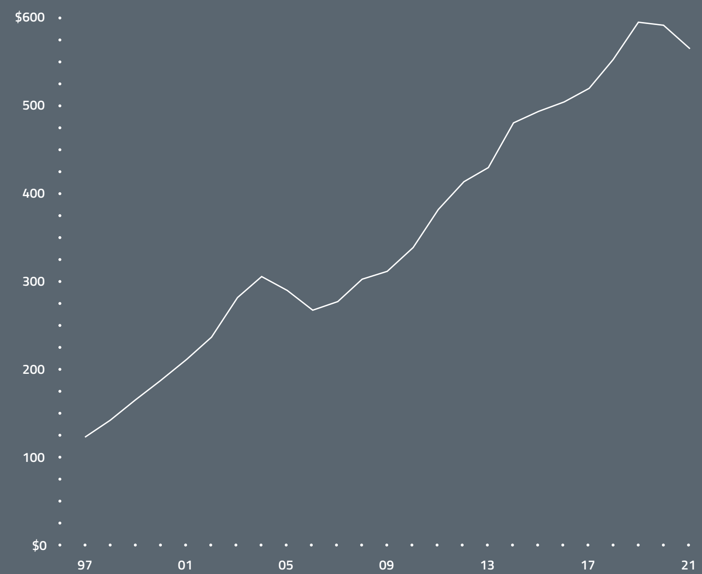
Amortization expense is expected to be $435,000 in fiscal 2022, $427,000 in fiscal 2023, $422,000 in fiscal 2024, $384,000 in fiscal 2025, $175,000 in fiscal 2026, and $261,000 thereafter.

Note 16 — Quarterly Results (Unaudited)

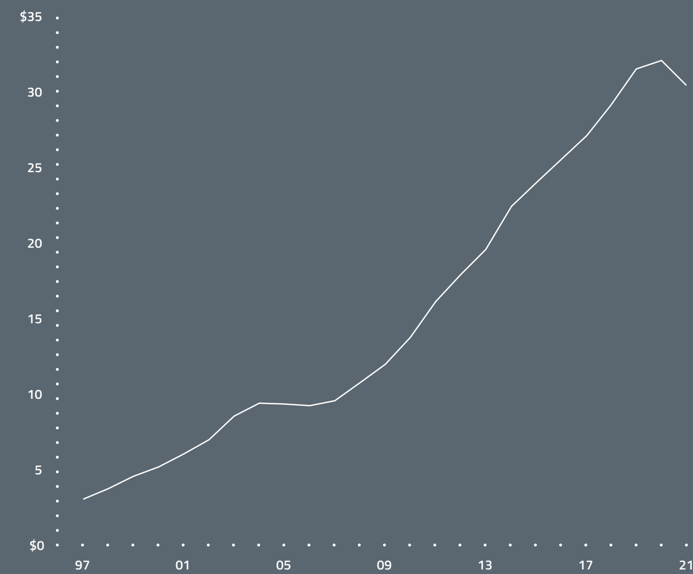
The following is a summary of unaudited quarterly results of operations for each of the quarters in the fiscal years ended March 31, 2021 and 2020:

	Revenues	Gross Profit	Net Income	Net Income per Basic Common Share	Net Income per Diluted Common Share
Fiscal Year Ended March 31, 2021:					
First Quarter	$129,600,000	$26,509,000	$ 8,302,000	$ 0.46	$ 0.46
Second Quarter	136,028,000	30,503,000	11,865,000	0.66	0.65
Third Quarter	141,506,000	30,893,000	11,380,000	0.64	0.63
Fourth Quarter	145,510,000	35,719,000	14,809,000	0.83	0.81
Fiscal Year Ended March 31, 2020:					
First Quarter	$150,139,000	$33,134,000	$13,407,000	$ 0.72	$ 0.71
Second Quarter	146,970,000	32,843,000	12,871,000	0.70	0.69
Third Quarter	148,092,000	29,253,000	9,352,000	0.51	0.50
Fourth Quarter	147,024,000	30,691,000	11,747,000	0.65	0.64

Revenue ***(in millions)***



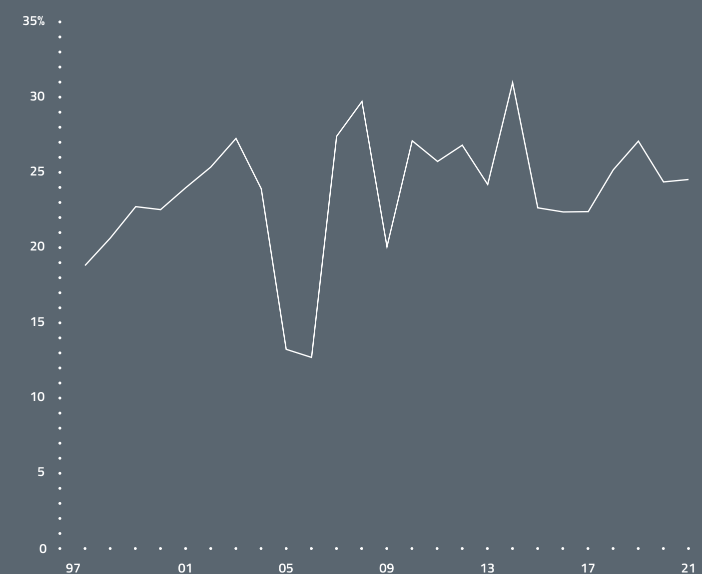
Annual Revenue Per Q4 Weighted Shares



Earnings Per Share ***(in dollars)***

Net Income ***(in millions)***

Return on Equity ***(%)***



Q4 Weighted Shares ***(in millions)***

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Irvine, California

Stock Symbol

The common stock of CorVel Corporation is traded on the NASDAQ Global Select Market under the stock symbol CRVL.

Form 10K

CorVel Corporation Annual Report on Form 10K filed with the Securities and Exchange Commission may be obtained without charge by contacting Investor Relations.

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