

CORVEL CORP  
Form 10-K  
June 08, 2018

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, 2018

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 ( State or other jurisdiction of incorporation or organization)	33-0282651 (I.R.S. Employer Identification No.)
2010 Main Street, Suite 600	

Irvine, California (Address of principal executive offices)	92614 (Zip Code)
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Registrant's telephone number, including area code: (949) 851-1473

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Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value \$0.0001 Per Share; Common stock traded on the 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Fcyber

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a small reporting company) 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of September 30, 2017, the aggregate market value of the Registrant's voting and non-voting common equity held by non-affiliates of the Registrant was approximately \$513,053,000 based on the closing price per share of \$54.40 for the Registrant's common stock as reported on the Nasdaq Global Select Market on such date multiplied by 9,431,130 shares (total outstanding shares of 18,824,953 less 9,393,823 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 June 5, 2018 was 18,945,318.

#### 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 2018 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, 2018. 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.

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CORVEL CORPORATION

2018 FORM 10-K ANNUAL REPORT

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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”, “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):

- General industry and economic conditions, including a decreasing number of national claims due to decreasing number of injured workers;
- Cost of capital and capital requirements;
- Competition from other managed care companies;
- 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;
- Changes in interpretations or applications of the Tax Cuts and Jobs Act through regulations and guidance that may be issued by the U.S. Department of the Treasury;
- Possible litigation and legal liability in the course of operations, and the Company’s ability to settle or otherwise resolve such litigation;
- The ability of the Company to produce market-competitive software;
- Increases in operating expenses, including employee wages, benefits and medical inflation;
- 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 ability to attract and retain key personnel;
- Shifts in customer demands;
- The availability of financing in the amounts, at the times, and on the terms necessary to support the Company’s future business;
- The impact of recently issued accounting standards on the Company’s consolidated financial statements; and
- Growth in the Company’s sale of third party administrator (“TPA”) services.

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 is a national provider of workers' compensation solutions for employers, third party administrators, insurance companies, and government agencies seeking to control costs and promote positive outcomes. The Company applies technology, intelligence, and a human touch to the challenges of risk management so that its customers can intervene early and often while being connected to the critical intelligence they need to proactively manage risk. CorVel specializes in applying advanced communication and information technology to improve healthcare management for workers' compensation, group health, automobile and liability insurance claims management. With a technology platform at its core, the Company's connected solution is delivered by a national team of associates who are committed to helping customers deliver programs that meet their organization's performance goals.

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 2010 Main Street, Suite 600, Irvine, California 92614. The Company's telephone number is 949-851-1473.

#### INDUSTRY OVERVIEW

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 resulting 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.

Some states have adopted legislation for managed care organizations ("MCOs") in an effort to allow employers to control their worker's compensation costs. A managed care plan is organized to serve the medical needs of injured workers in an efficient and cost-effective manner by managing the delivery of medical services through appropriate health care professionals. CorVel is registered wherever legislation mandates, where it is beneficial for the Company to obtain a license, or where the MCO has an effective utilized mandate. Since MCO legislation varies by state,



CorVel's state offerings vary as well. CorVel continually evaluates new legislation to ensure it is in compliance and can offer appropriate services to its customers and prospects.

## FISCAL 2018 DEVELOPMENTS

### Company Stock Repurchase Program

During fiscal 2018, the Company continued to repurchase shares of its common stock under a plan originally approved by the Company's Board of Directors in 1996. In February 2017, the Company's Board of Directors increased the number of shares of common stock authorized to be repurchased over the life of the plan by 1,000,000 shares of common stock to 36,000,000 shares of common stock. During fiscal 2018, the Company spent \$11 million to repurchase 249,245 shares of its common stock. Since commencing this program in the fall of 1996, the Company has repurchased 34,881,079 shares of its common stock through March 31, 2018, at a cost of \$431 million. These repurchases were funded primarily from the Company's operating cash flows.

#### Appointment of President

Mr. Michael Combs was appointed as as President of the Company effective April 1, 2017.

#### Purchase of Building

During fiscal 2018, the Company entered into a purchase agreement to acquire a 32,000 square foot building located in Milwaukie, Oregon at a purchase price of \$5.8 million. This building will be used for the Company's Symbeo business franchise, which consists of the Company's provider reimbursement and scanning services.

#### 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 PPO management, specialty networks, medical bill repricing, true line item review, expert fee negotiations, professional nurse review, 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 102 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, through scanning and electronic data interface ("EDI"), while 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

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## 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, identifies and adjusts medical claims using multiple services for varying needs within our insurers and third party administrator's medical payments. The services range from hospital itemization review to make sure the charges are correct, repricing of claims using multi-variant methods, to code correction and negotiations for out of network claims.

## 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 analysis to produce one combined document.

## Scanning Services

We continue to leverage our scanning 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. 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](http://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.

CorVel has branded its provider reimbursement and scanning services under the name Symbeo<sup>SM</sup>.

### 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.

### Patient Management Services

CorVel offers a unique approach to patient management. 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

CorVel has been a TPA offering claims management services since January 2007. 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 and 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. An additional feature of our iPad applications is the ability to electronically approve and email signed case management forms and documentation.

## 24/7 Nurse Triage

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.

## 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.

#### Life Care Planning

Life Care Planning is used to project long-term future needs, services and related costs associated with a catastrophic injury. CorVel's Life Care Plans summarize extensive amounts of medical data and compile it into a comprehensive report for future care requirements, aiding improved outcomes and timely resolution of claims. The Life Care Plans also provide working guidelines and points of reference for the family of a disabled person. Some of the features of the Company's Life Care Planning services include: comprehensive documentation, projecting future care requirements, customized reporting, certified documentation and costs specific to local areas.

### 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](http://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](http://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.

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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. Large amounts of information are consolidated and summarized to help customers focus on the critical issues.

#### 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 2018, 2017 or 2016. 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 technology in the past few years. The proliferation of smart phones and tablet computers allows the Company's customers to stay connected at any time, from anywhere. 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 new wave of technology in order to connect all of the parties involved in the workers' compensation process in ways that were unimaginable in the past. As with general health, according to the National Council on Compensation Insurance, the workers' compensation line continues to migrate to being a medical management business, with policymakers, employers, and carriers struggling to manage and control the costs of medical care. 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.

## EMPLOYEES

As of March 31, 2018, CorVel had 3,788 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.

## FINANCIAL INFORMATION ABOUT SEGMENT AND GEOGRAPHIC AREAS

Refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", and Note 13, "Segment Reporting", to our consolidated financial statements in Part IV of this annual report for information on our reportable operating segment and geographic areas.

## 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. Our filings may also be read and copied at the Public Reference Room of the SEC at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://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](http://www.caremc.com) and [www.onlinedocumentcenter.com](http://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 annual 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.

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;

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- 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. We cannot assure you that we will successfully market our services to these insurance carriers and employers or that they will not resort to other means to achieve cost savings. Additionally, our ability to capture additional market share may be adversely affected by the decision of potential customers to perform services internally instead of outsourcing the provision of such services to us. Furthermore, we may not be able to demonstrate sufficient cost savings to potential or current customers to induce them not to provide comparable services internally or to accelerate efforts to provide such services internally.

If competition increases, our growth and profits may decline.

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

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

Our sequential revenue growth may not increase and may decline in the future as a result of a variety of factors, many of which are outside of our control. If changes in our sequential revenue fall below the expectations of investors or analysts, the price of our common stock could decline substantially. Fluctuations or declines in sequential revenue growth may be due to a number of factors, including, but not limited to, those listed below and identified throughout this "Risk Factors" section: the decline in manufacturing employment, the decline in workers' compensation claims, the decline in healthcare expenditures, the considerable price competition in a flat-to-declining workers' compensation market, litigation, the increase in competition, and the changes and 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.

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

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

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

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

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

In 1996, our Board of Directors authorized a stock repurchase program and, since then, has periodically increased the number of shares authorized for repurchase under the repurchase program. The most recent increase occurred in February 2017 and brought the number of shares authorized for repurchase over the life of the program to 36,000,000 shares. There is no expiration date for the repurchase program. The timing and actual number of shares repurchased, if any, depend on a variety of factors including the timing of open trading windows, price, corporate and regulatory requirements, and other market conditions. The program may be suspended or discontinued at any time without prior notice. Repurchases pursuant to our stock repurchase program could affect our stock price and increase its volatility. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, repurchases under our stock repurchase program will diminish our cash reserves, which could impact our ability to pursue possible future strategic opportunities and acquisitions and could result in lower overall returns on our cash balances. There can be no assurance that any further stock repurchases will enhance stockholder value 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.

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 fewer 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.

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.

Matters relating to the Tax Cuts and Jobs Act, including future changes in tax laws, rules and regulations, disagreements with taxing authorities and imposition of new taxes, could adversely affect our results of operations and financial condition.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law. Among numerous provisions included in the new law was the reduction of the corporate federal income tax rate from 35% to 21% effective January 1, 2018. As a result of this federal income tax rate change, during the quarter ended December 31, 2017, we reported an effective tax rate of 5%. However, we continue to analyze and assess the impact of the Tax Cuts and Jobs Act and believe that its impact on our business may not be fully known for some time. During the quarter ended December 31, 2017, we applied the newly enacted corporate federal income tax rate to the remeasurement of U.S. deferred tax assets and liabilities resulting in a tax benefit of \$3.0 million. The decrease in net deferred tax liabilities was reasonably estimated and based on the tax rates at which they are expected to reverse in the future. The final impact may differ, possibly materially, due to, among other things, changes in interpretations, assumptions made by us, the issuance of federal tax regulations and guidance, and actions we may take as a result of the Tax Cuts and Jobs Act. Taking into account the change in the statutory federal rate as well as other permanent items, we expect our effective combined federal and state tax rate will be approximately 24% to 26% for the fiscal year beginning April 1, 2018. This expected effective rate assumes projected financial results consistent with recent trends and applies the new statutory rate and the impact of the Tax Cuts and Jobs Act relative to permanent differences between book and tax income. If our assumption that projected financial results will be consistent with recent trends turns out to be incorrect, our effective combined federal and state tax rate could be higher for the fiscal year beginning April 1, 2018. In the absence of guidance on various uncertainties and ambiguities in the application of certain provisions of the Tax Cuts and Jobs Act, we will use what we believe are reasonable interpretations and assumptions in applying the Tax Cuts and Jobs Act, but it is possible that the U.S. Department of Treasury could issue subsequent rules and regulations, or the Internal Revenue Service could issue subsequent guidance or take positions on audit, that differ from our prior interpretations and assumptions, which could have a material adverse effect on our cash, tax assets and liabilities, results of operations, and financial condition.

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.

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.

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

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

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

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

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

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

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

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



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

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

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

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

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

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

In addition, changes in workers' compensation, automobile insurance, and group healthcare laws or regulations may reduce demand for our services, require us to develop new or modified services to meet the demands of the marketplace, or reduce the fees that we may charge for our services.

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

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

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

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

We are dependent, to a substantial extent, upon the continuing efforts and abilities of certain key management personnel. In addition, we face competition for experienced employees with professional expertise in the workers' compensation managed care area. The loss of key personnel, especially V. Gordon Clemons, our Chairman and Chief Executive Officer, and Michael Combs, our 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.

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

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

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

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

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

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

Natural and other disasters may adversely affect our business.

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company's principal executive office is located in Irvine, California in approximately 13,000 square feet of leased space. The lease expires in January 2020. The Company leases approximately 84 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 2028. 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.

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## 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. The quarterly high and low per share sales prices for the Company's common stock for fiscal years 2018 and 2017 as reported by NASDAQ are set forth below for the periods indicated. These prices represent prices among dealers, do not include retail markups, markdowns or commissions, and may not represent actual transactions.

	High	Low
Fiscal Year Ended March 31, 2018:		
Quarter Ended June 30, 2017:	\$49.50	\$40.70
Quarter Ended September 30, 2017:	55.95	45.01
Quarter Ended December 31, 2017:	61.20	51.80
Quarter Ended March 31, 2018:	56.60	46.45
Fiscal Year Ended March 31, 2017:		
Quarter Ended June 30, 2016:	\$53.19	\$38.86
Quarter Ended September 30, 2016:	47.48	35.60
Quarter Ended December 31, 2016:	38.65	31.00
Quarter Ended March 31, 2017:	43.75	36.00

Holders. As of June 5, 2018, there were approximately 1,016 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. 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.

Unregistered Sales of Equity Securities. None.

Issuer Purchases of Equity Securities. None.

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 February 2017, 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 36,000,000 shares of common stock. As of March 31, 2018, the Company has repurchased 34,881,079 shares of its common stock over the life of the program. There is no expiration date for the program.





## STOCK PERFORMANCE GRAPH

The graph depicted below shows a comparison of cumulative total stockholder returns for the Company, the NASDAQ and the NASDAQ Health Services Index over a five year period beginning on March 31, 2013. The data depicted on the graph are as set forth in the chart below the graph. The graph assumes that \$100 was invested in the Company's Common Stock on March 31, 2013, 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.

	2013	2014	2015	2016	2017	2018
CorVel Corporation	100.00	201.09	139.06	159.30	175.79	204.28
U.S. NASDAQ	100.00	128.51	149.99	149.04	180.92	216.17
U.S. NASDAQ Healthcare Services	100.00	138.78	187.77	151.03	167.68	185.72

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 of this annual report immediately preceding Part II, Item 7 of this annual report, "Management's Discussion and Analysis of Financial Condition and Results of Operations", 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 Part II, Item 7 of this annual report 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.

Interest rate sensitivity

We are exposed to interest rate risks primarily through borrowing under our credit facility. Interest on our borrowings is based upon variable rates. We did not have any outstanding borrowings on our credit facility as of March 31, 2018, March 31, 2017, or March 31, 2016. Interest income from cash equivalents is not material and is partially offset by interest expense, which represents interest from borrowings, if any, and various fees associated with the credit facility.

Item 8. Financial Statements and Supplementary Data.

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

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, 2018, 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, 2018 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 issued an audit report on the effectiveness of our internal control over financial reporting as of March 31, 2018 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, 2018, 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.

On June 4, 2018, our Compensation Committee, in exercising its discretionary authority pursuant to the terms of all of our outstanding performance stock options, including those held by our officers, amended such stock options granted since 2015 to adjust upward all of the target earnings per share amounts. Our Compensation Committee made such adjustments because it deemed them equitable to recognize the anticipated impact of the changes in tax laws under the Tax Cuts and Jobs Act that was signed into law on December 22, 2017.

### 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,” “Executive Officers of CorVel,” and “Section 16(a) Beneficial Ownership Reporting Compliance” appearing in the Company’s Definitive Proxy Statement for the 2018 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](http://www.corvel.com) under the “Investor Relations” section. 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 2018 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 Matter” and “Equity Compensation Plan Information” appearing in the Company’s Definitive Proxy Statement for the 2018 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 2018 Annual Meeting of Stockholders is incorporated herein by reference.

#### Item 14. Principal Accounting 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 Auditors” and “Ratification of Appointment of Independent Auditors” appearing in the Company’s Definitive Proxy Statement for the 2018 Annual Meeting of Stockholders is incorporated herein by reference.

## PART IV

## Item 15. Exhibits, Financial Statement Schedule.

## (a)(1) Financial Statements:

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

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	43
<u>Consolidated Balance Sheets as of March 31, 2018 and 2017</u>	45
<u>Consolidated Statements of Income for the Fiscal Years Ended March 31, 2018, 2017 and 2016</u>	46
<u>Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended March 31, 2018, 2017 and 2016</u>	47
<u>Consolidated Statements of Cash Flows for the Fiscal Years Ended March 31, 2018, 2017 and 2016</u>	48
<u>Notes to Consolidated Financial Statements</u>	49

## (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	Additions Charged to Cost	Deductions	Balance at
	Beginning of Year	and Expenses		End of Year
<u>Allowance for doubtful accounts:</u>				
Fiscal Year Ended March 31, 2018:	\$ 3,001,000	\$ 2,559,000	\$(1,009,000)	\$4,551,000
Fiscal Year Ended March 31, 2017:	1,821,000	2,335,000	(1,155,000)	3,001,000
Fiscal Year Ended March 31, 2016:	1,645,000	1,357,000	(1,181,000)	1,821,000

(3) Exhibits:

EXHIBITS

Exhibit

No.	Title	Method of Filing
3.1	<u>Amended and Restated Certificate of Incorporation of the Company</u>	Incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 10, 2011.
3.2	<u>Amended and Restated Bylaws of the Company</u>	Incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 filed on August 14, 2006.
3.3	<u>Certificate of Designation Increasing the Number of Shares of Series A Junior Participating Preferred Stock</u>	Incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on November 24, 2008.
4.1	<u>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</u>	Incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K filed on November 24, 2008.
10.1*	Nonqualified Stock Option Agreement between V. Gordon Clemons, the Company and North Star together with all amendments and addendums thereto (P) Paper filing	Incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 Registration No. 33-40629 initially filed on May 16, 1991.
10.2*	Supplementary Agreement between V. Gordon Clemons, the Company and North Star (P) Paper filing	Incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 Registration No. 33-40629 initially filed on May 16, 1991.
10.3*	Amendment to Supplementary Agreement between V. Gordon Clemons, the Company and North Star (P) Paper filing	Incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1992 filed on June 29, 1992.
10.4*	<u>Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan)</u>	Incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the

quarterly period ended September 30, 2015 filed on November 5, 2015.

- 10.5\* Forms of Notice of Grant of Stock Option, Stock Option Agreement and Notice of Exercise Under the Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option) Incorporated herein by reference to 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, 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, 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.
- 10.6\* Employment Agreement of V. Gordon Clemons (P) Paper filing Incorporated herein by reference to Exhibit 10.12 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
10.7*	<u>Restated 1991 Employee Stock Purchase Plan, as amended</u>	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.
10.8	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.
10.9	<u>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</u>	Incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K filed on November 24, 2008.
10.10	<u>Credit Agreement dated May 28, 2009 by and between CorVel Corporation and Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.16 to the Company's Current Report on Form 8-K filed on June 4, 2009.
10.11	<u>Revolving Line of Credit Note dated May 28, 2009 by CorVel Corporation in favor of Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.17 to the Company's Current Report on Form 8-K filed on June 4, 2009.
10.12	<u>First Amendment to Credit Agreement dated June 2, 2010 by and between CorVel Corporation and Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 7, 2010.
10.13	<u>Revolving Line of Credit Note dated June 2, 2010 by CorVel Corporation in favor of Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 7, 2010.
10.14*	<u>Stock Option Agreement dated December 6, 2010 between the company and Diane J. Blaha, providing performance vesting.</u>	Incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for



the fiscal year ended March 31, 2014 filed on June 12, 2014.

- 10.15 Second Amendment to Credit Agreement dated September 1, 2011 by and between CorVel Corporation and Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 31, 2011.
- 10.16 Revolving Line of Credit Note dated September 1, 2011 by CorVel Corporation in favor of Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 31, 2011.
- 10.17\* Stock option agreement dated November 3, 2011, between the Company and Diane J. Blaha, providing performance vesting. Incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2015 filed on June 11, 2015.
- 10.18 Third Amendment to Credit Agreement dated September 1, 2012 by and between CorVel Corporation and Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 7, 2012.
- 10.19 Revolving Line of Credit Note dated September 1, 2012 by CorVel Corporation in favor of Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 7, 2012.

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Exhibit

No.	Title	Method of Filing
10.20*	<u>Stock option agreement dated March 1, 2013, between the Company and V. Gordon Clemons, providing performance vesting.</u>	Incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016 filed on June 10, 2016.
10.21*	<u>Stock option agreement dated March 1, 2013, between the Company and Scott McCloud, providing performance vesting.</u>	Incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016 filed on June 10, 2016.
10.22*	<u>Stock option agreement dated March 1, 2013, between the Company and Donald C. McFarlane, providing performance vesting.</u>	Incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016 filed on June 10, 2016.
10.23*	<u>Stock option agreement dated March 1, 2013, between the Company and Diane J. Blaha, providing performance vesting.</u>	Incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016 filed on June 10, 2016.
10.24	<u>Fourth Amendment to Credit Agreement dated September 1, 2013 by and between CorVel Corporation and Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 5, 2013.
10.25	<u>Revolving Line of Credit Note dated September 1, 2013 by CorVel Corporation in favor of Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 5, 2013.
10.26*	<u>Stock option agreement dated November 4, 2013, between the Company and Scott McCloud, providing performance vesting.</u>	Incorporated herein by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017 field on June 9, 2017.
10.27*	<u>Stock option agreement dated November 4, 2013, between the Company and Donald C. McFarlane, providing performance vesting.</u>	Incorporated herein by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017 field on June 9, 2017.
10.28*	<u>Stock option agreement dated November 4, 2013, between the Company and Diane J. Blaha, providing performance vesting.</u>	Incorporated herein by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017 field on June 9, 2017.
10.29*	<u>Stock option agreement dated November 4, 2013, between the Company and Richard J. Schweppe, providing performance vesting.</u>	Incorporated herein by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017 field on June 9, 2017.
10.30*	<u>Stock option agreement dated March 1, 2013, between the Company and Richard J. Schweppe, providing performance vesting.</u>	Incorporated herein by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016 filed on June 10, 2016.

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- 10.31 Fifth Amendment to Credit Agreement dated September 1, 2014 by and between CorVel Corporation and Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 5, 2014.
- 10.32 Revolving Line of Credit Note dated September 1, 2014 by CorVel Corporation in favor of Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 5, 2014.
- 10.33\*†Stock option agreement dated November 10, 2014, between the Company and Richard J. Schweppe, providing performance vesting. Refiled herewith.
- 10.34\*†Stock option agreement dated November 10, 2014, between the Company and Diane J. Blaha, providing performance vesting. Refiled herewith.
- 10.35 Sixth Amendment to Credit Agreement dated September 1, 2015 by and between CorVel Corporation and Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 4, 2015.

Exhibit

No.	Title	Method of Filing
10.36	<u>Revolving Line of Credit Note dated September 1, 2015 by CorVel Corporation in favor of Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 4, 2015.
10.37*	<u>†Stock option agreement dated November 10, 2015, between the Company and Richard J. Schweppe, providing performance vesting.</u>	Refiled herewith.
10.38*	<u>†Stock option agreement dated November 10, 2015, between the Company and Michael G. Combs, providing performance vesting.</u>	Refiled herewith.
10.39*	<u>†Stock option agreement dated November 10, 2015, between the Company and Diane J. Blaha, providing performance vesting.</u>	Refiled herewith.
10.40	<u>Seventh Amendment to Credit Agreement dated September 1, 2016 by and between CorVel Corporation and Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 2, 2016.
10.41	<u>Revolving Line of Credit Note dated September 1, 2016 by CorVel Corporation in favor of Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 2, 2016.
10.42*	<u>†Stock option agreement dated November 3, 2016 between the Company and Michael G. Combs, providing for performance vesting.</u>	Refiled herewith.
10.43*	<u>†Stock option agreement dated November 3, 2016 between the Company and Diane J. Blaha, providing for performance vesting.</u>	Refiled herewith.
10.44*	<u>†Stock option agreement dated November 3, 2016 between the Company Richard J. Schweppe, providing for performance vesting.</u>	Refiled herewith.
10.45	<u>Eighth Amendment to Credit Agreement dated September 1, 2017 by and between CorVel Corporation and Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 5, 2017.
10.46	<u>Revolving Line of Credit Note dated September 1, 2017 by CorVel Corporation in favor of Wells Fargo Bank, National Association.</u>	Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 5, 2017.

- 10.47\*†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 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2017 filed on February 2, 2018.
- 10.48\*†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 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2017 filed on February 2, 2018.
- 10.49\*†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 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2017 filed on February 2, 2018.
- 10.50\*†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 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2017 filed on February 2, 2018.

Exhibit

No.	Title	Method of Filing
21.1	<u>Subsidiaries of the Company.</u>	Filed herewith
23.1	<u>Consent of Independent Registered Public Accounting Firm, Haskell &amp; White LLP.</u>	Filed herewith.
31.1	<u>Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>	Filed herewith.
31.2	<u>Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>	Filed herewith.
32.1	<u>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.</u>	Furnished herewith.
32.2	<u>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.</u>	Furnished herewith.
101.0	The following materials from CorVel Corporation's Annual Report on Form 10-K for the fiscal year ended March 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of March 31, 2018 and March 31, 2017; (ii) Consolidated Statements of Income for the fiscal years ended March 31, 2018, 2017 and 2016; (iii) Consolidated Statements of Stockholders' Equity for the fiscal years ended March 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Cash Flows for the fiscal years ended March 31, 2018, 2017 and 2016; and (v) Notes to Consolidated Financial Statements	Furnished herewith.

\* - Denotes management contract or compensatory plan or arrangement.

† - Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934. In accordance with Rule 24b-2, these confidential portions have been omitted from this exhibit and filed separately with the Securities and Exchange Commission.

(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.



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/ V. Gordon Clemons  
 V. Gordon Clemons  
 Chairman of the Board and  
 Chief Executive Officer

Date: June 8, 2018

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 and Chief Executive Officer (Principal Executive Officer)	June 8, 2018
/s/ Kenneth S. Cragun Kenneth S. Cragun	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	June 8, 2018
/s/ Alan R. Hoops Alan R. Hoops	Director	June 8, 2018
/s/ Steven J. Hamerslag Steven J. Hamerslag	Director	June 8, 2018
/s/ R. Judd Jessup R. Judd Jessup	Director	June 8, 2018
/s/ Jean H. Macino Jean H. Macino	Director	June 8, 2018
/s/ Jeffrey J. Michael Jeffrey J. Michael	Director	June 8, 2018





## SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data for each of the five fiscal years ended March 31, 2018 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,				
	2018	2017	2016	2015	2014
<b>Income Statement Data:</b>					
Revenues	\$558,350	\$518,686	\$503,584	\$492,625	\$478,816
Cost of revenues	451,097	413,894	399,040	392,656	370,335
Gross profit	107,253	104,792	104,544	99,969	108,481
General and administrative	59,350	57,243	58,484	54,405	51,974
Income before income taxes	47,903	47,549	46,060	45,564	56,507
Income tax provision	12,208	18,070	17,535	16,974	22,115
Net income	\$35,695	\$29,479	\$28,525	\$28,590	\$34,392
<b>Net income per share:</b>					
Basic	\$1.90	\$1.52	\$1.44	\$1.38	\$1.63
Diluted	\$1.87	\$1.51	\$1.43	\$1.37	\$1.61
<b>Shares used in computing net income per share:</b>					
Basic	18,825	19,418	19,826	20,669	21,104
Diluted	19,042	19,570	20,004	20,890	21,372
Return on beginning of year equity	25.7	% 22.3	% 22.3	% 22.6	% 30.9
Return on beginning of year assets	15.2	% 13.4	% 13.5	% 13.3	% 18.9

	2018	2017	2016	2015	2014
<b>Balance Sheet Data as of March 31,</b>					
Cash and cash equivalents	\$55,771	\$28,611	\$32,779	\$25,516	\$34,866
Accounts receivable, net	64,940	62,841	59,747	57,537	57,229
Working capital	65,328	38,816	42,693	37,959	49,120
Total assets	274,004	235,383	220,269	211,573	214,481
Retained earnings	458,457	422,762	393,283	364,758	336,168
Treasury stock	(430,989)	(419,802)	(391,803)	(360,278)	(328,480)
Total stockholders' equity	171,176	138,646	131,948	127,923	126,522

## 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, 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," and "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) changes in interpretations or application of the Tax Cuts and Jobs Act through regulations and guidance that may be issued by the U.S. Department of Treasury; general industry and economic conditions, including a decreasing number of national claims due to a decreasing number of injured workers; cost of capital and capital requirements; existing and possible litigation and legal liability in the course of operations and the Company's ability to resolve such litigation; competition from other managed care companies; the ability to expand certain areas of the Company's business; shifts in customer demands; the ability of the Company to produce market-competitive software; changes in operating expenses including employee wages, benefits, and medical inflation; governmental and public policy changes, including but not limited to legislative and administrative law and rule implementation or change; dependence on key personnel; the continued availability of financing in the amounts and at the terms necessary to support the Company's future business; the impact of recently issued accounting standards on the Company's consolidated financial statements; growth in the Company's sale of TPA services 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, 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 and durable medical equipment.

### 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 productions and similar methods to distribute the services and products.

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.

## Seasonality

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

## Summary of Fiscal 2018 Annual Results

The Company had record revenues of \$558 million for the fiscal year ended March 31, 2018, an increase of \$40 million, or 8%, compared to \$519 million for the fiscal year ended March 31, 2017. This increase was primarily due to a 9.8% increase in patient management services, driven by an increase in TPA services. Additionally, there was a 5% increase in network solutions services.

During fiscal 2018, the Company's gross profit increased to \$107 million from \$105 million in fiscal 2017, an increase of \$2 million, or 2%. This increase was primarily due to an increase in revenues, although cost of revenues increased at a higher rate than revenues.

During fiscal 2018, the Company's general and administrative expenses increased to \$59.4 million from \$57.2 million in fiscal 2017, an increase of \$2.1 million, or 3.7%. This increase was primarily due to an impairment to the investment in private equity and an increase in non-cash stock-based compensation from performance stock options.

During fiscal 2018, the Company's operating income increased to \$47.9 million from \$47.5 million in fiscal 2017, an increase of \$0.4 million, or 0.7%, relatively flat as the increase in revenues was nearly offset by increase in cost of revenues and general and administrative expenses.

During fiscal 2018, the Company's income tax expense decreased to \$12.2 million from \$18.1 million in fiscal 2017, a decrease of \$5.9 million, or 32.4%. This decrease was primarily due to the impact of the Tax Cuts and Jobs Act,

effective January 1, 2018, as the Company remeasured its U.S. deferred tax assets and liabilities at lower enacted corporate tax rates. In addition, the Company benefited from the lower corporate tax rates for the last quarter of fiscal 2018.

Weighted diluted shares decreased to 19.0 million shares in fiscal 2018 from 19.6 million shares in fiscal 2017, a decrease of 528,000 shares, or 2.7%. This decrease was primarily due to the repurchase of 249,245 shares of common stock in fiscal 2018. In February 2017, the Company's Board of Directors increased the number of shares authorized to be repurchased over the life of its stock repurchase program to 36,000,000 shares. Since commencing this program in the fall of 1996, the Company has repurchased 34,881,079 shares of its common stock through March 31, 2018, at a cost of \$431 million. These repurchases were funded primarily from the Company's operating cash flows.

Diluted earnings per share increased to \$1.87 in fiscal 2018 from \$1.51 in fiscal 2017, an increase of \$0.36 per share, or 23.8%. This increase was primarily due to the benefit of the lower corporate tax rates and the reduction in the number of shares outstanding of 2.7% due to the share repurchases described above.

## 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 utilization review, medical case management, vocational rehabilitation, and claims processing. Network solutions services include fee schedule auditing, hospital bill auditing, 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, 2018, 2017 and 2016 are listed below.

	2018	2017	2016
Patient management services	56.7 %	55.6 %	55.1 %
Network solutions services	43.3 %	44.4 %	44.9 %
	100.0 %	100.0 %	100.0 %

As noted in the table above, from fiscal 2016 to fiscal 2018, the mix of the Company's revenues moved 1.6 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, 2018, 2017 and 2016 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		Amount Change		Percent Change	
	2018	2017	from Fiscal	from Fiscal	from Fiscal	from Fiscal
			2017	2016	2017	2016
			to 2018	to 2017	to 2018	to 2017
Revenues	\$558,350	\$518,686	\$ 39,664	\$ 15,102	7.6 %	3.0 %
Cost of revenues	451,097	413,894	37,203	14,854	9.0	3.7
Gross profit	107,253	104,792	2,461	248	2.3	0.2
General and administrative	59,350	57,243	2,107	(1,241)	3.7	(2.1)
Income before income taxes	47,903	47,549	354	1,489	0.7	3.2
Income tax provision	12,208	18,070	(5,862)	535	(32.4)	3.1
Net income	\$35,695	\$29,479	\$ 6,216	\$ 954	21.1 %	3.3 %
Net income per share:						
Basic	\$1.90	\$1.52	\$ 0.38	\$ 0.08	25.0 %	5.6 %
Diluted	\$1.87	\$1.51	\$ 0.36	\$ 0.08	23.8 %	5.6 %

Shares used in net  
income per

share:											
Basic	18,825	19,418	19,826	(593	)	(408	)	(3.1	%)	(2.1	%)
Diluted	19,042	19,570	20,004	(528	)	(434	)	(2.7	%)	(2.2	%)

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, 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, 2018, 2017 and 2016 are as follows:

Income Statement Percentages	2018	2017	2016
Revenues	100.0%	100.0%	100.0%
Cost of revenues	80.8 %	79.8 %	79.2 %
Gross profit	19.2 %	20.2 %	20.8 %
General and administrative	10.6 %	11.0 %	11.6 %
Income before income taxes	8.6 %	9.2 %	9.2 %
Income tax provision	2.2 %	3.5 %	3.5 %
Net Income	6.4 %	5.7 %	5.7 %

## 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 2018 Compared to Fiscal 2017

Revenues increased to \$558 million in fiscal 2018 from \$519 million in fiscal 2017, an increase of \$40 million, or 8%. The increase in revenues was due to an increase in patient management services, which increased by 9.8%, from \$288 million to \$316 million. This increase in revenues from TPA services was due to a 9% increase in the number of customers, which contributed to a 19% increase in the total number of claims opened during the fiscal year. 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. Network solutions services revenues increased by 5.0%, from \$230 million to \$242 million. The increase was due to a 6.4% increase in the number of bills, and revenue per bill increased 2.4%, from \$29.80 to \$30.50. Pharmacy service revenues increased \$4.8 million, from \$56.4 million to \$61.1 million.

### Fiscal 2017 Compared to Fiscal 2016

Revenues increased to \$519 million in fiscal 2017 from \$504 million in fiscal 2016, an increase of \$15 million, or 3%. This increase was primarily due to growth in TPA services within patient management due to an increase in customers and in network solutions services. Patient management services revenues, which include TPA services revenues, increased to \$288 million in fiscal 2017 from \$277 million in fiscal 2016, an increase of \$10.9 million, or 3.9%. This increase in revenues from TPA services was due to a 12% increase in the number of customers, which contributed to an 11% increase in the total number of claims opened during the fiscal year. Network solutions services revenues increased to \$230 million in fiscal 2017 from \$226 million in fiscal 2016, an increase of \$4.2 million, or 1.8%.

## 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, (iv) office rent, and (v) telephone expenses. During fiscal 2018 and 2017, approximately 34% and 35% 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 2018 Compared to Fiscal 2017

The Company's cost of revenues increased to \$451 million in fiscal 2018 from \$414 million in fiscal 2017, an increase of \$37 million, or 9%. The increase in cost of revenues was primarily due to revenue increasing in lower margin TPA services, which was slightly offset by an increase in higher margin network solutions revenue. Additionally, there was an increase of \$5.7 million in salaries, from \$120 million in fiscal 2017 to \$126 million in fiscal 2018, due to an increase in headcount and direct labor costs of 159 employees. Pharmacy service costs increased \$5.1 million due to an increase in pharmacy service revenues. The Company also experienced a \$4.6 million increase in the Company's self-insured group medical costs due to a few large claims incurred during fiscal 2018.

### Fiscal 2017 Compared to Fiscal 2016

The Company's cost of revenues increased to \$414 million in fiscal 2017 from \$399 million in fiscal 2016, an increase of \$15 million, or 3.7%. This increase was primarily due to the 3% increase in revenues noted above. The increase in cost of revenues was also due to an increase in lower margin patient management TPA services due to competitive pricing and a decrease in higher margin bill review services. Additionally, our direct labor costs increased to \$120 million in fiscal 2017 from \$113 million in fiscal 2016 due to increased headcount in TPA services.

## General and Administrative Expense

During fiscal years 2018, 2017, and 2016, approximately 54%, 59%, and 60%, 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 2018 Compared to Fiscal 2017

General and administrative expense increased to \$59.4 million in fiscal 2018 from \$57.2 million in fiscal 2017, an increase of \$2.1 million, or 3.7%. The increase in general and administrative expense was primarily due to an increase in the impairment of \$1.2 million in the investment in private equity and an increase of \$0.5 million in non-cash stock-based compensation from performance stock options.

### Fiscal 2017 Compared to Fiscal 2016

General and administrative expense decreased to \$57.2 million in fiscal 2017 from \$58.5 million in fiscal 2016, a decrease of \$1.3 million, or 2.1%. Legal expenses decreased \$0.6 million and IT expenses decreased \$0.4 million in fiscal 2017.

## Income Tax Provision

### Fiscal 2018 Compared to Fiscal 2017

The Company's income tax expense was \$12.2 million for fiscal 2018 and \$18.1 million for fiscal 2017, a decrease of \$5.9 million. The decrease in income tax expense was primarily due to the decrease in the Company's effective tax rate, which was 25% and 38% for fiscal 2018 and fiscal 2017, respectively. The effective tax rate decreased due to the impact of the Tax Cuts and Jobs Act as the Company remeasured its U.S. deferred tax assets and liabilities at lower enacted corporate tax rates, resulting in a tax benefit of \$3.0 million in fiscal 2018. The tax benefit associated with stock option exercises also contributed to the lower tax rate in fiscal 2018 compared to fiscal 2017. Accounting for these tax savings resulted in an effective tax rate of 23% in the fourth quarter of fiscal 2018.

#### Fiscal 2017 Compared to Fiscal 2016

The Company's income tax expense was \$17.5 million for fiscal 2016 and \$18.1 million for fiscal 2017. The income tax expense was calculated based on a 38.1% tax rate for fiscal year 2016 and 38% for fiscal year 2017. The increase of \$0.5 million was primarily due to an increase in income before income taxes. The income tax provision rates were based upon management's review of the Company's estimated annual income tax rate, including state taxes. This effective tax rate differed from the statutory federal tax rate of 35% primarily due to state income taxes and certain non-deductible expenses offset by tax credits.

#### Net Income

##### Fiscal 2018 Compared to Fiscal 2017

The Company's net income increased to \$35.7 million in fiscal 2018 from \$29.5 million in fiscal 2017, an increase of \$6.2 million, or 21.1%. This increase was primarily due to the benefit of the lower corporate tax rates, in addition to a 1.0% increase in pretax income.

##### Fiscal 2017 Compared to Fiscal 2016

The Company's net income increased to \$29.5 million in fiscal 2017 from \$28.5 million in fiscal 2016, an increase of \$1 million, or 3.3%. This increase net income was due to an increase in pretax income, which was primarily due to a decrease in general and administrative expenses, along with a nominal increase in gross profit.

#### Earnings per Share

##### Fiscal 2018 Compared to Fiscal 2017

The Company's diluted earnings per share increased to \$1.87 in fiscal 2018 from \$1.51 in fiscal 2017, an increase of \$0.36. This increase was primarily due to the benefit of the lower corporate tax rates and a decrease in diluted weighted average shares outstanding because of shares repurchased under the Company's stock repurchase program.

##### Fiscal 2017 Compared to Fiscal 2016

The Company's diluted earnings per share increased to \$1.51 in fiscal 2017 from \$1.43 in fiscal 2016, an increase of \$0.08. This increase was primarily due to a decrease in diluted weighted average shares outstanding 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 27 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, 2018, 2017 and 2016. 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 \$431 million of its common stock during the past 21 fiscal years, on inception-to-date net earnings of \$458 million. The Company repurchases shares during periods of excess liquidity, which has occurred in all 27 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 \$65.3 million in fiscal 2018 from \$38.8 million in fiscal 2017. This is primarily due to an increase in net income and proceeds from stock options exercised, partially offset by cash used to repurchase shares of the Company's common stock.

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

As of March 31, 2018, the Company had \$55.8 million in cash and cash equivalents, invested primarily in short-term, interest-bearing, highly-liquid, investment-grade securities with maturities of 90 days or less.

In September 2017, the Company renewed a line of credit agreement. The line is with a financial institution to provide a revolving credit facility with borrowing capacity of up to \$10 million. Borrowings under this agreement, as amended, bear interest, at the Company's option, at a fixed LIBOR-based rate plus 1.50% or at a fluctuating rate determined by the financial institution to be 1.50% above the daily one-month LIBOR rate. The loan covenants require the Company to maintain a current assets to liabilities ratio of at least 1.25:1, debt to tangible net worth ratio not greater than 1.25:1 and to have positive net income. There were no outstanding revolving loans as of March 31, 2018, but letters of credit in the aggregate amount of \$4.5 million have been issued separate from the line of credit, and therefore do not reduce the amount of borrowings available under the revolving credit facility. In the event of default, the financial institution has a right of setoff against our cash balances on deposit with the financial institution to the extent there is unpaid principal and interest related to the line of credit. The credit agreement expires in September 2018.

The Company believes that the cash balance at March 31, 2018 along with anticipated internally-generated funds, and the credit facility will be sufficient to meet the Company's expected cash requirements for at least the next twelve months.

## Operating Cash Flows

### Fiscal 2018 Compared to Fiscal 2017

Net cash provided by operating activities increased to \$62.2 million in fiscal 2018 from \$52.1 million in fiscal 2017, an increase of \$10.1 million. The improvement in cash from operating activities was primarily due to a \$6 million increase in net income, coupled with the favorable cash impact from an increase in deferred revenue.

### Fiscal 2017 Compared to Fiscal 2016

Net cash provided by operating activities increased to \$52.1 million in fiscal 2017 from \$51.3 million in fiscal 2016, an increase of \$0.8 million. This amount is relatively unchanged over prior year.

## Investing Activities

### Fiscal 2018 Compared to Fiscal 2017

Net cash flow used in investing activities decreased to \$27.7 million in fiscal 2018 from \$31.0 million in fiscal 2017, a decrease of \$3.3 million. The decrease in net cash flow used in investing activities was due to a decrease of \$5 million in software licenses and \$5 million in servers, which was offset by the \$5.8 million purchase of a building in fiscal 2018.

Fiscal 2017 Compared to Fiscal 2016

Net cash flow used in investing activities increased to \$31.0 million in fiscal 2017 from \$17.4 million in fiscal 2016, an increase of \$13.74 million. This increase was due to an increase in property additions during fiscal 2017. The increase in net cash flow used in investing activities was also due to the above-mentioned purchase of \$5 million of servers. Additionally, the Company purchased \$5 million in software licenses as part of a multiple-year purchase agreement.

Financing Activities

Fiscal 2018 Compared to Fiscal 2017

Net cash flow used in financing activities decreased to \$7.3 million in fiscal 2018 from \$25 million in fiscal 2017, a decrease of \$17.9 million. During fiscal 2018, the Company spent \$11 million to repurchase 249,245 shares of its common stock (at an average price of \$44.88 per share). During fiscal 2017, the Company spent \$28 million to repurchase 745,575 shares of its common stock (at an average price of \$37.56 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, or seek to identify other businesses to acquire. In February 2017, the Board of Directors increased the number of shares authorized to be repurchased over the life of the stock repurchase program by an additional 1,000,000 shares to 36,000,000 shares. 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, 2018 to repurchase additional shares of its common stock in the future.

#### Fiscal 2017 Compared to Fiscal 2016

Net cash flow used in financing activities decreased to \$25 million in fiscal 2017 from \$27 million in fiscal 2016, a decrease of \$2 million. During fiscal 2017, the Company spent \$28 million to repurchase 745,575 shares of its common stock (at an average price of \$37.55 per share). During fiscal 2016, the Company spent \$31.5 million to repurchase 893,771 shares of its common stock (at an average price of \$35.27 per share).

#### Contractual Obligations

The following table sets forth our contractual obligations at March 31, 2018, which are primarily future minimum lease payments due under non-cancelable operating leases:

	Total	For the Fiscal Years Ended March 31st, Within:			
		Less than one year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	\$62,781,000	\$14,442,000	\$21,148,000	\$14,746,000	\$12,445,000
Uncertain tax positions	1,472,000	1,472,000	—	—	—
Software license	1,746,000	1,746,000	—	—	—
Total	\$65,999,000	\$17,660,000	\$21,148,000	\$14,746,000	\$12,445,000

**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 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.

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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, "Basis of Presentation and 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) allowance for uncollectible accounts, (iii) goodwill and long-lived assets, (iv) accrual for self-insured costs, (v) accounting for income taxes, (vi) legal and other contingencies, (vii) share-based compensation, and (viii) software development costs.

**Revenue Recognition:** The Company recognizes revenue when (i) there is persuasive evidence of an arrangement, (ii) the services have been provided to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. For the Company's services, the Company's professional staff is contractually permitted to bill (i) for fees earned for time worked in fraction of an hour increments or (ii) by units of production. The Company recognizes revenue as fees are earned or as units of production are completed, which is when the revenue is earned and realized. Labor costs are recognized as the costs are incurred. The Company derives the majority of its revenue from the sale of network solutions and patient management services. Network solutions and patient management services may be sold individually or combined with any of the services the Company provides. When a sale combines multiple elements, the Company accounts for such multiple element arrangements in accordance with the guidance included in ASC 605-25.

Management evaluates agreements with customers in accordance with the provision of the revenue recognition topic that addresses multiple-deliverable revenue arrangements. The multiple elements arrangements consist of bundled managed care which included various units of accounting such as network solutions services and patient management services (which includes claims administration). Such elements are considered separate units of accounting as each element has value to the customer on a stand-alone basis. The selling price for each unit of accounting is determined using the contract price and management estimates. When the Company's customers purchase several products, the pricing of the products sold is generally the same as if the products were sold on an individual basis. Revenue is recognized as the work is performed in accordance with the Company's customer contracts. Based upon the nature of the Company's products, bundled managed care elements are generally delivered in the same accounting period. Revenues for most of our products are generally recognized at the time of billing, however, the Company recognizes revenue for patient management claims administration services over the life of the claim. The Company estimates, based upon prior experience in managing claims, the deferral amount based on our estimate of the life of the claim or the term of the customer contract.

**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. No one customer accounted for 10% or more of accounts receivable at March 31, 2018 and 2017.

**Goodwill and Long-Lived Assets:** Goodwill arising from business combinations represents the excess of the purchase price over the estimated fair value of the net assets of the acquired business. Pursuant to ASC 350-10 through ASC 350-30, "Goodwill and Other Intangible Assets," goodwill is tested annually for impairment or more frequently if circumstances indicate the potential for impairment. Also, management tests for impairment of its amortizable intangible assets and long-lived assets annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The 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, 2018 or March 31, 2017. However, future events or changes in current circumstances could affect the recoverability of the carrying value of goodwill and long-lived assets. Should an asset be deemed impaired, an impairment loss would be recognized to the extent the carrying value of the asset exceeded its estimated fair market value.

**Accrual for Self-insurance Costs:** The Company accrues for the group medical costs and workers' compensation costs of its employees based on claims filed and an estimate of claims incurred but not reported as of each balance sheet date. The Company 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 9, "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, 2018,

the Company recorded share-based compensation expense of \$3,164,000.

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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 2018. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

We do 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

On May 28, 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606, "Revenue from Contracts with Customers". This standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one-year delay of the effective date of this new revenue recognition standard. The guidance will now be effective for our fiscal year beginning April 1, 2018. The Company has reviewed a sample of contracts with its customers that the Company believes is representative of its significant revenue streams identified to date, and is performing procedures to confirm the initial assessment as applied to all revenue streams. While the assessment of the impact on revenue and expenses and the Company's results of operations, financial position and cash flows as a result of this guidance is ongoing, the Company expects that revenue for its primary revenue streams will be recognized in a manner which is similar to how revenue is recognized for these services today. Further, the Company does not expect any changes in accounting for costs to obtain or fulfill contracts with customers. As the Company completes its overall assessment, it is also identifying and preparing to implement changes to its accounting policies and disclosure requirements. For example, the new standard requires increased disclosure, which in turn is expected to require certain new processes and system changes. The Company's evaluation indicated that process and system changes were required to capture the amounts and expected timing of revenues to be recognized from the remaining performance obligations during and as of each reporting period and the Company has completed a majority of these process and system changes at this time. The Company adopted this new standard as of April 1, 2018 using the modified retrospective method that may result in a cumulative effect adjustment as of the date of adoption.

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



In February 2016, the FASB issued ASU 2016-02, “Leases”, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for using an approach that is similar to the existing guidance for operating leases. The standard is effective April 1, 2019, with early adoption permitted. The standard is to be applied using a modified retrospective transition method. We are currently evaluating the impact of adoption on our consolidated financial position, results of operations, and cash flows.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting”, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows. For public companies, the new guidance became effective for annual reporting periods, and interim periods within those periods, beginning after December 15, 2016. We have elected to early adopt this standard as of March 31, 2017. As a result, during the fourth quarter of fiscal 2017, we reclassified the fiscal 2017 excess tax benefit of \$0.5 million from additional paid in capital into the income tax provision line. We have also reclassified the excess tax benefits from the stock-based compensation from financing activities into operating activities in the statement of cash flows for the year ended March 31, 2017. We applied this change in presentation prospectively and prior years have not been adjusted.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows”, which reduces diversity in the practice of how certain transactions are classified in the statement of cash flows. The new guidance is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The adoption of this guidance will not have a material impact on our consolidated financial statements.

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, 2018 and 2017, the related consolidated statements of income, stockholders’ equity, and cash flows for each of the years in the three-year period ended March 31, 2018, 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, 2018, 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, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2018, 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, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

Basis for Opinion

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.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Continued)

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.

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

/s/ HASKELL & WHITE LLP

Irvine, California  
June 8, 2018

## CORVEL CORPORATION

## CONSOLIDATED BALANCE SHEETS

	March 31, 2018	2017
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$55,771,000	\$28,611,000
Customer deposits	35,496,000	32,471,000
Accounts receivable (less allowance for doubtful accounts of \$4,551,000 at March 31, 2018 and \$3,001,000 at March 31, 2017)	64,940,000	62,841,000
Prepaid expenses and income taxes	7,110,000	4,944,000
Total current assets	163,317,000	128,867,000
Property and equipment, net	69,356,000	63,042,000
Goodwill	36,814,000	36,814,000
Other intangible assets, net	3,415,000	3,851,000
Other assets	1,102,000	2,809,000
Total assets	\$274,004,000	\$235,383,000
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts and income taxes payable	\$13,453,000	\$16,583,000
Accrued liabilities	84,536,000	73,468,000
Total current liabilities	97,989,000	90,051,000
Deferred income taxes	4,839,000	6,686,000
Total liabilities	102,828,000	96,737,000
Commitments and contingencies (Notes 5, 6, 8, 9, 10 and 12)		
Stockholders' Equity		
Common stock, \$.0001 par value: 120,000,000 shares authorized at March 31, 2018 and 2017; 53,793,986 shares issued (18,912,907 shares outstanding, net of treasury shares) and 53,569,067 shares issued (18,937,233 shares outstanding, net of treasury shares) at March 31, 2018 and March 31, 2017, respectively		
	3,000	3,000
Paid-in-capital	143,705,000	135,683,000
Treasury Stock, at cost (34,881,079 and 34,631,834 shares at March 31, 2018 and 2017, respectively)	(430,989,000)	(419,802,000)
Retained earnings	458,457,000	422,762,000
Total stockholders' equity	171,176,000	138,646,000

\$274,004,000 \$235,383,000

See accompanying notes to consolidated financial statements.

## CORVEL CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Years Ended March 31,		
	2018	2017	2016
Revenues	\$558,350,000	\$518,686,000	\$503,584,000
Cost of revenues	451,097,000	413,894,000	399,040,000
Gross profit	107,253,000	104,792,000	104,544,000
General and administrative	59,350,000	57,243,000	58,484,000
Income before income taxes	47,903,000	47,549,000	46,060,000
Income tax provision	12,208,000	18,070,000	17,535,000
Net income	\$35,695,000	\$29,479,000	\$28,525,000
Net income per share:			
Basic	\$1.90	\$1.52	1.44
Diluted	\$1.87	\$1.51	1.43
Weighted average shares outstanding:			
Basic	18,825,000	19,418,000	19,826,000
Diluted	19,042,000	19,570,000	20,004,000

See accompanying notes to consolidated financial statements.



## CORVEL CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Fiscal Years Ended March 31, 2018, 2017 and 2016

	Common	Stock	Paid-in-Capital	Treasury Shares	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
Balance – March 31, 2015	53,243,157	\$ 3,000	\$ 123,440,000	(32,992,488 )	\$(360,278,000)	\$ 364,758,000	\$ 127,923,000
Stock issued under employee stock purchase plan	10,975	—	371,000	—	—	—	371,000
Stock issued under stock option plan, net of shares repurchased	194,540	—	3,749,000	—	—	—	3,749,000
Stock-based compensation expense	—	—	2,192,000	—	—	—	2,192,000
Income tax benefits from stock option exercises	—	—	713,000	—	—	—	713,000
Purchase of treasury stock	—	—	—	(893,771 )	(31,525,000 )	—	(31,525,000 )
Net income	—	—	—	—	—	28,525,000	28,525,000
Balance – March 31, 2016	53,448,672	3,000	130,465,000	(33,886,259 )	(391,803,000)	393,283,000	131,948,000
Stock issued under employee stock	10,596	—	419,000	—	—	—	419,000

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purchase plan								
Stock issued under stock option plan,								
net of shares repurchased	109,799	—	2,367,000	—	—	—		2,367,000
Stock-based compensation expense	—	—	2,432,000	—	—	—		2,432,000
Purchase of treasury stock	—	—	—	(745,575 )	(27,999,000 )	—		(27,999,000 )
Net income	—	—	—	—	—	29,479,000		29,479,000
Balance – March 31, 2017	53,569,067	3,000	135,683,000	(34,631,834 )	(419,802,000)	422,762,000		138,646,000
Stock issued under employee stock purchase plan	8,976	—	458,000	—	—	—		458,000
Stock issued under stock option plan,								
net of shares repurchased	215,943	—	3,426,000	—	—	—		3,426,000
Stock-based compensation expense	—	—	3,164,000	—	—	—		3,164,000
Purchase of treasury stock	—	—	—	(249,245 )	(11,187,000 )	—		(11,187,000 )
Adjustment to deferred income taxes for prior year's stock options	—	—	974,000	—	—	—		974,000
Net income	—	—	—	—	—	35,695,000		35,695,000
Balance – March 31, 2018	53,793,986	\$3,000	\$143,705,000	(34,881,079 )	\$(430,989,000)	\$458,457,000		\$171,176,000

See accompanying notes to consolidated financial statements.

## CORVEL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended March 31,		
	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 35,695,000	\$ 29,479,000	\$ 28,525,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,775,000	20,948,000	19,952,000
Loss on write down or disposal of assets	1,199,000	733,000	286,000
Stock-based compensation expense	3,164,000	2,432,000	2,192,000
Provision for doubtful accounts	2,559,000	2,335,000	1,357,000
Provision for deferred income taxes	(874,000 )	(1,220,000 )	(1,656,000 )
Changes in operating assets and liabilities:			
Accounts receivable	(4,658,000 )	(5,429,000 )	(3,567,000 )
Customer deposits	(3,025,000 )	(6,822,000 )	(8,331,000 )
Prepaid expenses and income taxes	(2,166,000 )	(11,000 )	6,742,000
Other assets	545,000	(29,000 )	(516,000 )
Accounts and taxes payable	(3,130,000 )	3,350,000	(2,537,000 )
Accrued liabilities	11,068,000	6,286,000	8,864,000
Net cash provided by operating activities	62,152,000	52,052,000	51,311,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in private equity	—	34,000	(600,000 )
Purchases of property and equipment	(27,689,000)	(31,041,000)	(16,756,000)
Net cash used in investing activities	(27,689,000)	(31,007,000)	(17,356,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Exercise of employee stock purchase options	458,000	419,000	371,000
Exercise of common stock options	3,426,000	2,367,000	3,749,000
Tax benefits from stock options	—	—	713,000
Purchase of treasury stock	(11,187,000)	(27,999,000)	(31,525,000)
Net cash used in financing activities	(7,303,000 )	(25,213,000)	(26,692,000)
Net increase (decrease) in cash and cash equivalents	27,160,000	(4,168,000 )	7,263,000
Cash and cash equivalents at beginning of year	28,611,000	32,779,000	25,516,000
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 55,771,000</b>	<b>\$ 28,611,000</b>	<b>\$ 32,779,000</b>
<b>Supplemental cash flow information</b>			
Income taxes paid	\$ 16,229,000	\$ 18,321,000	\$ 13,589,000
Accrual of software license purchase	\$ 1,746,000	\$ 3,492,000	\$ 3,249,000
Tenant improvement allowance	\$ —	\$ 1,224,000	\$ —

See accompanying notes to consolidated financial statements.

CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Years Ended March 31, 2018, 2017 and 2016

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 2018 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, accrual for income taxes, share-based payments related to performance-based awards, loss contingencies, estimated 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, 2018 and 2017 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, accounts receivable, accounts payable, etc.) are all Level 1, and the Company believes their respective carrying values approximates their fair values at March 31, 2018 and 2017 due to the short-term nature of those instruments. The Company has no Level 2 or Level 3 assets.

Investment in Private Equity: The Company has made an investment of \$2,250,000 into a private equity limited partnership that invests in start-up companies primarily in the data analytics industry. The Company accounts for the investment using the cost method and will periodically review the investment for possible impairment. The Company recorded a reduction to the investment of \$1,169,000 for the year ended March 31, 2018. The investment is recorded in other assets on the accompanying consolidated balance sheets. In accordance with ASC 825-10-50-16 through 50-19, it is not practicable to estimate the fair value of the investment due to the fact that the investment is in a diversified portfolio of companies whose shares are not traded in public markets.

**Revenue Recognition:** The Company recognizes revenue when (i) there is persuasive evidence of an arrangement, (ii) the services have been provided to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. For the Company's services, the Company's professional staff is contractually permitted to bill (i) for fees earned for time worked in fraction of an hour increments or (ii) by units of production. The Company recognizes revenue as fees are earned or as units of production are completed, which is when the revenue is earned and realized. Labor costs are recognized as the costs are incurred. The Company derives its revenue from the sale of network solutions and patient management services. Network solutions and patient management services may be sold individually or combined. When a sale combines multiple elements, the Company accounts for such multiple element arrangements in accordance with the guidance included in ASC 605-25.

Management evaluates agreements with customers in accordance with the provision of the revenue recognition topic that addresses multiple-deliverable revenue arrangements. The multiple element arrangements consist of bundled managed care services, which include various units of accounting such as network solutions and patient management services (which includes claims administration). Such elements are considered separate units of accounting due to each element having value to the customer on a stand-alone basis. The selling price for each unit of accounting is determined using the contract price and management estimates. When the Company's customers purchase several products, the pricing of the products sold is generally the same as if the products were sold on an individual basis. Revenue is recognized as the work is performed in accordance with the Company's customer contracts. Based upon the nature of the Company's products, bundled managed care elements are generally delivered in the same accounting period. Revenues for most of our products are generally recognized at the time of billing, however, the Company recognizes revenue for patient management claims administration services over the life of the claim. The Company estimates, based upon prior experience in managing claims, the deferral amount based on our estimate of the life of the claim or the term of the customer contract.

**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 \$15,131,000, and \$14,579,000 of unbilled receivables at March 31, 2018 and 2017, respectively. Unbilled receivables represent the revenue for work performed which has not yet been invoiced to the customer. Unbilled receivables are generally invoiced within the following three months.

**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. Receivables are generally due within 30 days. 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 2018, 2017 or 2016. No customer accounted for 10% or more of accounts receivable at either March 31, 2018 or 2017.

**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
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 \$27,679,000 (net of \$88,567,000 in accumulated amortization) and \$25,721,000 (net of \$78,952,000 in accumulated amortization), as of March 31, 2018 and 2017, 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.

**Goodwill and 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, 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, 2018. However, future events or changes in current circumstances could affect the recoverability of the carrying value of goodwill and long-lived assets. Should an asset be deemed impaired, an impairment loss would be recognized to the extent the carrying value of the asset exceeded its estimated fair value. Goodwill amounted to \$36,814,000 (net of accumulated amortization of \$2,069,000) at March 31, 2018 and at March 31, 2017.

**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 employee’s 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 shares and the diluted shares for each of the fiscal years ended March 31, 2018, 2017 and 2016 is as follows:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Basic weighted shares	18,825,000	19,418,000	19,826,000
Treasury stock impact of stock options	217,000	152,000	178,000
Diluted weighted shares	19,042,000	19,570,000	20,004,000

#### Recently Issued Accounting Standards

On May 28, 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606, “Revenue from Contracts with Customers”. This standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one-year delay of the effective date of this new revenue recognition standard. The guidance will now be effective for our fiscal year beginning April 1, 2018. The Company has reviewed a sample of contracts with its customers that the Company believes is representative of its significant revenue streams identified to date, and is performing procedures to confirm the initial assessment as applied to all revenue streams. While the assessment of the impact on revenue and expenses and the Company’s results of operations, financial position and cash flows as a result of this guidance is ongoing, the Company expects that revenue for its primary revenue streams will be recognized in a manner which is similar to how revenue is recognized for these services today. Further, the Company does not expect any changes in accounting for costs to obtain or fulfill contracts with customers. As the Company completes its overall assessment, it is also identifying and preparing to implement changes to its accounting policies and disclosure requirements. For example, the new standard requires increased disclosure, which in turn is expected to require certain new processes and system changes. The Company's evaluation indicated that process and system changes were required to capture the amounts and expected timing of revenues to be recognized from the remaining performance obligations during and as of each reporting period and the Company has completed a majority of these process and system changes at this time. The Company adopted this new standard as of April 1, 2018 using the modified retrospective method that may result in a cumulative effect adjustment as of the date of adoption.

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

In February 2016, the FASB issued ASU 2016-02, “Leases”, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for using an approach that is similar to the existing guidance for operating leases. The standard is effective April 1, 2019, with early adoption permitted. The standard is to be applied using a modified retrospective transition method. We are currently evaluating the impact of adoption on our consolidated financial

position, results of operations, and cash flows.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting”, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows. For public companies, the new guidance became effective for annual reporting periods. And interim periods within those periods, beginning after December 15, 2016. We have elected to early adopt this standard as of March 31, 2017. As a result, during the fourth quarter of fiscal 2017, we reclassified the fiscal 2017 excess tax benefit of \$0.5 million from additional paid in capital into the income tax provision line. We have also reclassified the excess tax benefits from the stock-based compensation from financing activities into operating activities in the statement of cash flows for the year ended March 31, 2017. We applied this change in presentation prospectively and prior years have not been adjusted.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows”, which reduces diversity in the practice of how certain transactions are classified in the statement of cash flows. The new guidance is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The adoption of this guidance will not have a material impact on our consolidated financial statements.

## Note 2 — 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, 2018, options exercisable for up to 19,365,000 shares of the Company's common stock may be granted over the life of the Plan to key employees, non-employee directors, and consultants at exercise prices not less than the fair market value of the stock 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 2018 and 2017 were granted with an exercise price equal to the fair value of the Company's common stock on the grant date and are non-statutory stock options.

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. As a result, during the fourth quarter of fiscal 2017, we reclassified the fiscal 2017 excess tax benefit of \$0.5 million from additional paid in capital into the income tax provision line. 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, 2018, 2017 and 2016:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Expected volatility	40	% 41	% 43
Risk free interest rate	1.88% to 2.56%	1.03% to 1.92%	1.25% to 1.65%
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, 2018, 2017 and 2016, the Company recorded share-based compensation expense of \$3,164,000, \$2,432,000, and \$2,192,000, respectively. The table below shows the amounts recognized in the financial statements for the fiscal years ended March 31, 2018, 2017 and 2016.

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Cost of revenue	\$1,749,000	\$1,507,000	\$1,288,000
General and administrative	1,415,000	925,000	904,000
Total cost of stock-based compensation			
included in income before income taxes	3,164,000	2,432,000	2,192,000
Amount of income tax benefit recognized	1,105,000	946,000	852,000
Amount charged to net income	\$2,059,000	\$1,486,000	\$1,340,000
Effect on basic earnings per share	\$0.11	\$0.08	\$0.07

Effect on diluted earnings per share	\$0.11	\$0.08	\$0.07
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All options granted in the fiscal years ended March 31, 2018, 2017 and 2016 were granted at fair value and are non-statutory stock options. The following table summarizes information for all stock options for the fiscal years ended March 31, 2018, 2017 and 2016:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Options outstanding – beginning of the year	1,143,928	1,115,465	1,163,179
Options granted	334,200	267,950	276,275
Options exercised	(314,846 )	(115,592 )	(200,753 )
Options cancelled/forfeited	(98,843 )	(123,895 )	(123,236 )
Options outstanding – end of year	1,064,439	1,143,928	1,115,465
During the year, weighted average exercise price of:			
Options granted	\$ 52.57	\$ 37.13	\$ 35.51
Options exercised	\$ 27.59	\$ 22.74	\$ 19.75
Options cancelled/forfeited	\$ 35.59	\$ 36.90	\$ 33.44
At the end of the year:			
Price range of outstanding options	\$12.71-\$57.75	\$12.71-\$45.73	\$9.05-\$45.55
Weighted average exercise price per share	\$ 39.45	\$ 32.02	\$ 30.36
Options available for future grants	260,961	505,493	650,345
Exercisable options	445,387	585,424	529,691

The following table summarizes the status of stock options outstanding and exercisable at March 31, 2018:

Range of Exercise Prices	Number of Outstanding Options	Weighted Average Contractual Life	Weighted Average Exercise Price	Number of Exercisable Options	Weighted Average Exercise Price
\$12.71 to \$32.10	292,156	2.84	\$ 24.96	195,387	\$ 21.42
\$32.11 to \$34.78	177,354	2.91	34.41	85,900	34.37
\$34.79 to \$44.86	186,408	3.19	41.20	106,502	41.22
\$44.87 to \$57.75	408,521	4.38	52.58	57,598	45.60
Total	1,064,439	3.40	\$ 39.45	445,387	\$ 31.78

The following table summarizes the status of all outstanding options at March 31, 2018, and changes during the fiscal year then ended:



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	Weighted			
	Average	Weighted Average		Aggregate
	Exercise	Remaining		Intrinsic Value
	Number of	Price per	Contractual Life	as of March 31,
	Options	Share	(Years)	2018
Options outstanding, March 31, 2017	1,143,928	\$ 32.02		
Granted	334,200	52.57		
Exercised	(314,846 )	27.59		
Cancelled – forfeited	(81,586 )	36.22		
Cancelled – expired	(17,257 )	27.57		
Options outstanding, March 31, 2018	1,064,439	\$ 39.45	3.41	\$ 12,986,338
Options vested and expected to vest	959,664	\$ 39.76	3.43	\$ 10,249,240
Ending exercisable	445,387	\$ 31.78	2.45	\$ 8,360,918

The weighted average fair value of options granted during fiscal 2018, 2017 and 2016 was \$19.24, \$13.38, and \$13.68, respectively. The total intrinsic value of options exercised during fiscal years 2018, 2017 and 2016 was \$7,780,000, \$2,620,000, and \$3,581,000 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, 2018, 2017 and 2016, the Company recognized stock compensation expense for performance-based options in the amount of \$649,000, \$49,000, and \$28,000, respectively.

The Company received \$3,426,000, \$2,367,000, and \$3,749,000 of cash receipts from the exercise of stock options during fiscal 2018, 2017 and 2016, respectively. As of March 31, 2018, \$5,496,000 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted average period of 3 years.

Note 3 — Property and Equipment

Property and equipment, net consisted of the following at March 31, 2018 and 2017:

	2018	2017
Computer software	\$ 142,754,000	\$ 130,641,000
Office equipment and computers	67,730,000	65,246,000
Land and building	5,843,000	—
Leasehold improvements	14,461,000	10,893,000
	230,788,000	206,780,000
Less: accumulated depreciation and amortization	(161,432,000)	(143,738,000)
	\$ 69,356,000	\$ 63,042,000

Depreciation expense totaled \$21,338,000, \$20,534,000 and \$19,502,000 for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

Note 4 — Accounts and Income Taxes Payable and Accrued Liabilities

Accounts and income taxes payable consisted of the following at March 31, 2018 and 2017:

	2018	2017
Accounts payable	\$ 11,787,000	\$ 13,869,000
Uncertain tax positions	1,666,000	2,714,000
	\$ 13,453,000	\$ 16,583,000

Accrued liabilities consisted of the following at March 31, 2018 and 2017:

	2018	2017
Payroll, payroll taxes and employee benefits	\$ 15,100,000	\$ 14,465,000

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Customer deposits	35,496,000	32,471,000
Accrued professional service fees	5,782,000	4,551,000
Self-insurance accruals	3,627,000	2,835,000
Deferred revenue	15,316,000	10,096,000
Accrued rent	6,147,000	5,774,000
Other	3,068,000	3,276,000
	\$84,536,000	\$73,468,000

## Note 5 — Income Taxes

The income tax provision consisted of the following for the fiscal years ended March 31, 2018, 2017 and 2016:

	2018	2017	2016
Current — Federal	\$ 11,177,000	\$ 16,456,000	\$ 16,600,000
Current — State	1,905,000	2,834,000	2,591,000
Subtotal	13,082,000	19,290,000	19,191,000
Deferred — Federal	(955,000 )	(1,508,000 )	(1,679,000 )
Deferred — State	81,000	288,000	23,000
Subtotal	(874,000 )	(1,220,000 )	(1,656,000 )
	\$ 12,208,000	\$ 18,070,000	\$ 17,535,000

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, 2018, 2017 and 2016:

	2018	2017	2016
Income taxes at federal statutory rate	\$ 15,112,000	\$ 16,643,000	\$ 16,121,000
State income taxes, net of federal benefit	1,645,000	1,973,000	1,704,000
Uncertain tax positions	(464,000 )	88,000	78,000
Permanent items and tax credits	(1,364,000 )	(705,000 )	(100,000 )
Adjustments to returns as filed	138,000	80,000	(232,000 )
Valuation allowance	236,000	—	—
Impact of tax reform	(3,095,000 )	—	—
Other	—	(9,000 )	(36,000 )
	\$ 12,208,000	\$ 18,070,000	\$ 17,535,000

Deferred tax assets and liabilities at March 31, 2018 and 2017 are:

	2018	2017
Deferred tax assets:		
Accrued liabilities not currently deductible	\$ 5,703,000	\$ 9,409,000
Allowance for doubtful accounts	1,151,000	1,153,000
Stock-based compensation	1,631,000	1,755,000
Accrued rent	1,555,000	2,219,000
Other	896,000	740,000
Deferred tax assets	10,936,000	15,276,000
Deferred tax liabilities:		
Excess of book over tax basis of fixed assets	(11,191,000)	(15,666,000)
Intangible assets	(4,169,000 )	(5,960,000 )
Other	(179,000 )	(336,000 )

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Total deferred tax liabilities	(15,539,000)	(21,962,000)
Valuation allowance	(236,000 )	—
Deferred tax liabilities	(15,775,000)	(21,962,000)
Net deferred tax liability	\$(4,839,000 )	\$(6,686,000 )

Prepaid expenses and income taxes include \$1,962,000 at March 31, 2018 and accounts and income taxes payable include \$584,000 at March 31, 2017, 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, 2017	\$1,884,000
Additions based on tax positions related to the current year	236,000
Additions for tax positions of prior years	8,000
Reductions for tax positions related to the current year	0
Reductions for tax positions of prior years	(656,000 )
Balance as of March 31, 2018	\$1,472,000

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the years ended March 31, 2018, 2017 and 2016, the Company recognized approximately \$(53,000), \$35,000 and \$72,000 in interest and penalties, respectively. As of March 31, 2018, 2017 and 2016, accrued interest and penalties related to uncertain tax positions were \$194,000, \$247,000 and \$212,000, respectively.

The tax fiscal years from 2014-2017 remain open to examination by the major taxing jurisdictions to which the Company is subject.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law. Among numerous provisions included in the new law was the reduction of the corporate federal income tax rate from 35% to 21% effective January 1, 2018. As a result of this federal income tax rate change, during the quarter ended December 31, 2017, we reported an effective tax rate of 5%. However, we continue to analyze and assess the impact of the Tax Cuts and Jobs Act and believe that its impact on our business may not be fully known for some time. During the quarter ended December 31, 2017, we applied the newly enacted corporate federal income tax rate to the remeasurement of U.S. deferred tax assets and liabilities resulting in a tax benefit of \$3.0 million. The decrease in net deferred tax liabilities was reasonably estimated and based on the tax rates at which they are expected to reverse in the future. The final impact may differ, possibly materially, due to, among other things, changes in interpretations, assumptions made by us, the issuance of federal tax regulations and guidance, and actions we may take as a result of the Tax Cuts and Jobs Act. Taking into account the change in the statutory federal rate as well as other permanent items, we expect our effective combined federal and state tax rate will be approximately 24% to 26% for the fiscal year beginning April 1, 2018. This expected effective rate assumes projected financial results consistent with recent trends and applies the new statutory rate and the impact of the Tax Cuts and Jobs Act relative to permanent differences between book and tax income. If our assumption that projected financial results will be consistent with recent trends turns out to be incorrect, our effective combined federal and state tax rate could be higher for the fiscal year beginning April 1, 2018. In the absence of guidance on various uncertainties and ambiguities in the application of certain provisions of the Tax Cuts and Jobs Act, we will use what we believe are reasonable interpretations and assumptions in applying the Tax Cuts and Jobs Act, but it is possible that the U.S. Department of Treasury could issue subsequent rules and regulations, or the Internal Revenue Service could issue subsequent guidance or take positions on audit, that differ from our prior interpretations and assumptions, which could have a material adverse effect on our cash, tax assets and liabilities, results of operations, and financial condition.

#### Note 6 — 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

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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 has been authorized for issuance under the ESPP. As of March 31, 2018, 2,469,843 shares had been issued pursuant to the ESPP. Summarized ESPP information is as follows:

	2018	2017	2016
Employee contributions	\$458,000	\$419,000	\$371,000
Shares acquired	8,976	10,596	10,975
Average purchase price	\$49.78	\$38.80	\$33.81

## Note 7 — Treasury Stock

During each of the fiscal years ended March 31, 2018, 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 February 2017, the total number of shares of common stock authorized to be repurchased over the life of the program is 36,000,000 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, 2018, 2017 and 2016 and cumulatively since inception of the authorization, are as follows:

	2018	2017	2016	Cumulative
Shares repurchased	249,245	745,575	893,771	34,881,079
Cost	\$11,187,000	\$27,999,000	\$31,525,000	\$430,989,000
Average price	\$44.88	\$37.56	\$35.27	\$12.36

During the period subsequent to March 31, 2018, through the date of filing this annual report, the Company had no repurchases of common stock.

## Note 8 — Commitments

The Company leases office facilities under non-cancelable operating leases. Some of these leases contain escalation clauses. Future minimum rental commitments under operating leases at March 31, 2018 are \$14,442,000 in fiscal 2019, \$11,114,000 in fiscal 2020, \$10,034,000 in fiscal 2021, \$8,005,000 in fiscal 2022, \$6,741,000 in fiscal 2023, \$12,445,000 thereafter, and \$62,781,000 in the aggregate. Total rental expense of \$14,077,000, \$13,952,000, and \$14,405,000 was charged to operations for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

## Note 9 — 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 10 — 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 \$557,000, \$464,000 and \$392,000 were charged to operations for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

## Note 11 — 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 11, 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 12 — Line of Credit

In September 2017, the Company renewed a line of credit agreement. The line is with a financial institution to provide a revolving credit facility with borrowing capacity of up to \$10 million. Borrowings under this agreement, as amended, bear interest, at the Company's option, at a fixed LIBOR-based rate plus 1.50% or at a fluctuating rate determined by the financial institution to be 1.50% above the daily one-month LIBOR rate. The loan covenants require the Company to maintain a current assets to liabilities ratio of at least 1.25:1, debt to tangible net worth ratio not greater than 1.25:1 and to have positive net income. There were no outstanding revolving loans as of March 31, 2018, but letters of credit in the aggregate amount of \$4.5 million have been issued separate from the line of credit and therefore do not reduce the amount of borrowings available under the revolving credit facility. In the event of default, the financial institution has a right of setoff against our cash balances on deposit with the financial institution to the extent there is unpaid principal and interest related to the line of credit. The credit agreement expires in September 2018.

#### Note 13 — 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, 2018, 2017 and 2016 are listed below.

	2018	2017	2016
Patient management services	56.7 %	55.6 %	55.1 %
Network solutions services	43.3 %	44.4 %	44.9 %
	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 productions and similar methods to distribute their services. 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.

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## Note 14 — Other Intangible Assets

Other intangible assets consisted of the following at March 31, 2018:

Item	Life	Cost	Expense	Cost, Net of	
				Accumulated Amortization at March 31, 2018	Accumulated Amortization at March 31, 2018
Covenant Not to Compete	5 years	\$775,000	\$ —	\$ 775,000	\$ —
Customer Relationships	18-20 years	7,922,000	423,000	4,566,000	3,356,000
Third Party Administrator Licenses	15 years	204,000	14,000	145,000	59,000
Total		\$8,901,000	\$ 437,000	\$ 5,486,000	\$ 3,415,000

Other intangible assets consisted of the following at March 31, 2017:

Item	Life	Cost	Expense	Cost, Net of	
				Accumulated Amortization at March 31, 2017	Accumulated Amortization at March 31, 2017
Covenant Not to Compete	5 years	\$775,000	\$ —	\$ 775,000	\$ —
Customer Relationships	18-20 years	7,922,000	423,000	4,144,000	3,778,000
Third Party Administrator Licenses	15 years	204,000	14,000	131,000	73,000
Total		\$8,901,000	\$ 437,000	\$ 5,050,000	\$ 3,851,000

Amortization expense is expected to be \$437,000 in fiscal 2019, \$437,000 in fiscal 2020, \$437,000 in fiscal 2021, \$436,000 in fiscal 2022, \$427,000 in fiscal 2023, and \$1,241,000 thereafter.

## Note 15 — 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, 2018 and 2017:

Revenues	Gross Profit	Net Income	Net Income	Net Income
			per Basic	per Diluted

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				Common	Common
				Share	Share
Fiscal Year Ended March 31, 2018:					
First Quarter	\$ 137,612,000	\$ 28,783,000	\$ 8,775,000	\$ 0.47	\$ 0.46
Second Quarter	136,431,000	25,752,000	8,393,000	0.45	0.44
Third Quarter	140,734,000	25,569,000	9,569,000	0.51	0.50
Fourth Quarter	143,573,000	27,149,000	8,958,000	0.47	0.47
Fiscal Year Ended March 31, 2017:					
First Quarter	\$ 128,459,000	\$ 25,582,000	\$ 7,491,000	\$ 0.38	\$ 0.38
Second Quarter	128,219,000	25,912,000	6,952,000	0.36	0.35
Third Quarter	128,403,000	25,577,000	7,049,000	0.36	0.36
Fourth Quarter	133,605,000	27,721,000	7,987,000	0.42	0.42