



**INNOVATE**

**COSTS CAN RANGE FROM 2% OF WAGES, TO AS HIGH AS 10%. EMPLOYERS ARE FINDING WORKERS' COMPENSATION TO BE EXPENSIVE AND COMPLICATED.**

**WE BELIEVE THAT THE TIME HAS ARRIVED FOR INCREASED PRODUCTIVITY IN THE MANAGING OF DISABILITY CLAIMS.**

# complexity

At CorVel our mission has been to make workers' compensation less costly and a friendlier benefit for employees. Work related injuries have always been an important concern for employers. Though automation has improved the worksite, change has created new kinds of injuries and work related issues. Inevitably some claims become contentious, further complicating workers' compensation administration.

Since workers' compensation has always included claims for indemnity payments, managing claims has been the province of adjusting firms, and automation has not traditionally been a focal point of service development. Regulations are set uniquely in each state, and some work classes have unique benefit schedules. As a result, the combinations of different entitlements with the lack of automation, create a blizzard of paperwork.

Costs can range from 2% of wages, to as high as 10%. During the 1990s, a wave of low-priced reinsurance created a period when workers' compensation was particularly inexpensive for most employers. However today, the increased risks posed by terrorist threats, coupled with low yields on insurance investments, have created a high priced environment. Reinsurers have backed away from the market. Employers are finding workers' compensation to be expensive and complicated.

New regulations, MCO's and now HIPAA (Health Insurance Portability and Accountability Act) have created a quagmire of regulatory compliance complexities. These added challenges have come together just as one of the most debilitating recessions in many decades has hit hard at corporate financial resources. Every piece of the process is expensive and complex. This market is in position for more advanced automated information processing. Although in the past most systems capabilities had not reached critical mass, we believe that the time has arrived for increased productivity in the managing of disability claims.

# efficiency

Since our inception, at CorVel we have had a vision of patient-friendly, automated and timely workers' compensation administration. Each year we have endeavored to enhance our product line, meeting the continually changing needs of the marketplace and our customers. Through these years, we have had a consistent strategy and that has allowed our past investments to fully support future programs. The bill review services begun in the late 80s supported the entry into PPO (Preferred Provider Organizations) programs in the early 90s. Having chosen to build proprietary software for both case management and medical bill review, we were prepared to launch the Care<sup>MC</sup> healthcare website in 1999.

CorVel began building the foundations of our vision many years ago. We chose to build our own software so that we could be certain that its architecture would support a view of the future that few shared at that time. Our investments in technology and systems total over \$150 million and leverage the knowledge of a few hundred dedicated product development and systems support associates. Although traditionally managed care may have been associated with case files and medical bills, our real service is one of information management. We communicate with all the constituencies in disability management, managing the information involved. Particularly in recent years, technology has become a critical factor in our service offering.

Several key external developments, coupled with CorVel's long history of technology investment, have come together to create a unique platform from which to implement new claims administration processes. CorVel has been able to achieve practical implementations of technology that have supported the Company's growth and throughout these development years we have always built for the future. We committed to building our own data centers, to distributing computing to reach customers and to building our own healthcare transaction portal. Our investments have been expensive and consuming, but they are fed by our passion to find our way to a different future. We have chosen to make a difference.

## **BUILD**

**CORVEL BEGAN BUILDING THE FOUNDATIONS OF OUR VISION MANY YEARS AGO. WE COMMITTED TO BUILDING OUR OWN DATA CENTERS, TO DISTRIBUTING COMPUTING TO REACH CUSTOMERS AND TO BUILDING OUR OWN HEALTHCARE TRANSACTION PORTAL.**

**TECHNOLOGY HAS BECOME A CRITICAL FACTOR IN OUR SERVICE OFFERING.**

# efficiency

Four years ago, during the dot.com wave, we began building our healthcare portal, Care<sup>MC</sup>. We chose, though, to spend at a rate we could afford to maintain. Since then, there have been other managed care websites, but each lacks either the financial staying power or the foundation of decades of software development. Our ability to succeed with Care<sup>MC</sup> is supported by our ability to maintain a service development commitment over decades.

Care<sup>MC</sup> allows information used by payors and providers to be combined in one database. Access is universal with the internet, and yet secured by Care<sup>MC</sup>'s design. The new healthcare security mandated by HIPAA's national legislation is addressed using our role-based security interface. Immediate access to information allows time delays to be substantially reduced. In turn, this eases the stress caused in the past by the cumbersome paper processes.

Information can be collected once, and shared as appropriate, with all responsible constituents. Information transfer errors are eliminated. Outcomes reporting is available much more readily and in a more timely manner. The cost of communicating is substantially less in the internet model than in the paper processes of the past.

At the same time, we are also enjoying the wave of innovation in communications technology. Telephones have moved to our pockets and merged with our computers. The web has made sending messages cheaper and much more intuitive. The key external factors making our technology strategy timely, include: a) ongoing increases in computer processing power, b) the emergence of the internet as a uniquely useful tool in healthcare administration and c) the application of modern document and workflow management techniques in the administration of claims.

Much of what makes disability management complex is the number of constituents, each with different interests and information needs. Bringing all of those people and issues

together, with efficient and powerful processes, can be done with much more ease, capitalizing on today's technology. We believe that internet services will continue to grow. Although the levels of enthusiasm reached in 2000 were excessive, the intuitive sense of the power of the internet was an accurate assessment.

Timely communication eliminates delays. Powerful databases connected to the web make information inexpensive, accurate and available. The internet not only gives us access, but offers easy and friendly access. When everyone involved in a patient's care can see the right information in timely manner, workers' compensation solutions become simpler, more affordable and understandable. CorVel provides those solutions.

Fair and prompt reimbursement for healthcare providers is a big concern for all involved parties. CorVel's bill review and PPO management software, MedCheck, facilitates prompt review of the costs of healthcare and provides an automated process for appropriate reimbursement. Automated adjudication provides consistent application of the related regulations. Medical bills can be approved for reimbursement online. The reduced cost for payors processing reimbursement, offsets the cash flow loss created by prompt reimbursement. As a result, when the cumbersome paper reimbursement system is replaced by CorVel's automated process, both the providers' and payors' positions are enhanced.

Healthcare administration is increasingly like the transaction processing in financial services, and we see automation use at the levels existing in commercial banking. Workflows will be significantly changed by available automation techniques. Timely, secure access to appropriate information will ease the tasks that support healthcare professionals and reduce the cost of processing claims.

# outcomes

The bottom line, though, is improving outcomes for patients, as well as for those who pay for healthcare. Accelerating the process allows employees to return to work more promptly. Delays incurred in being diagnosed and treated can be reduced. Getting employees back to work optimizes their ability to be rejoined with their associates and to retain their work habits. Improving return-to-work is the best way to reduce workers' compensation costs.

Automation also reduces the cost of managing claims. CorVel's ASP (Application Service Provider) tools allow payors to use software tools without the costs of managing and maintaining software on their own systems. Internet-based solutions maximize access while minimizing computing costs. Newer workflow management tools are also reducing the amount of labor required to conduct claims management. Increasingly, software is able to automatically address issues in claims management and simplify the collection of information.

The service enhancements and patient outcomes achieved by CorVel have created a solid return for our shareholders. Over the last decade we have improved the Company's return on equity. Our share repurchase program has helped keep our equity base consistent with the market opportunities. Revenue and profits have grown consistently. Today, we have the largest office network in our industry and lead in most technology categories.

In spite of the accomplishments of the last few years, there still remains much to do in our effort to streamline the administration of workers' compensation. It is important that payors and providers have positioned themselves properly to benefit from ongoing innovation in healthcare administration and information processing. CorVel continues to invest ambitiously, and is committed to continuing its investments in the long term. The goal of constant and continuing improvement inspires us in our work and in our mission of improving outcomes in disability management.

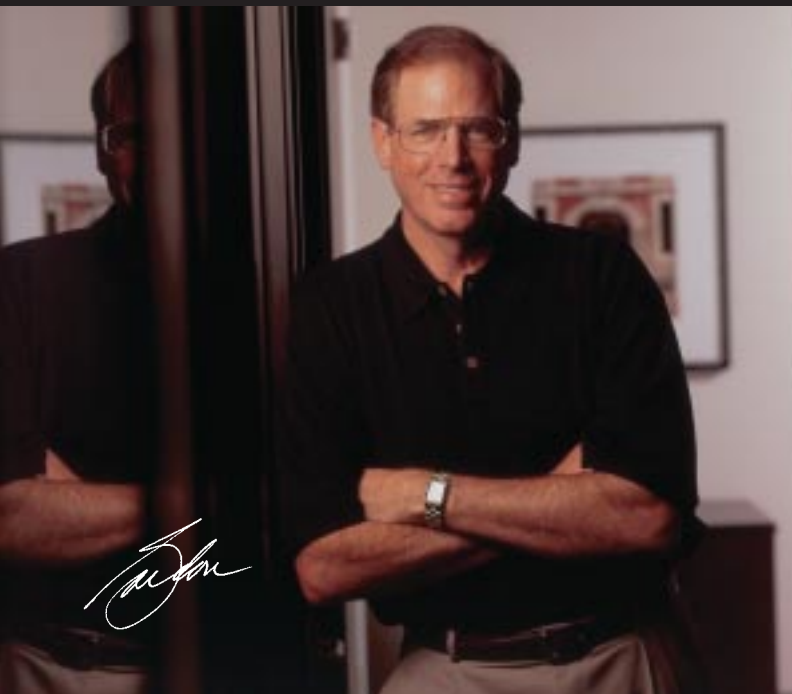
We'd like to thank our employees for their ongoing commitment and hard work, and our shareholders for their support as well.



**GROW**

**THE BOTTOM LINE IS TO IMPROVE OUTCOMES FOR PATIENTS, AS WELL AS FOR THOSE WHO PAY FOR HEALTHCARE.**

**THERE STILL REMAINS MUCH TO DO IN OUR EFFORTS, HOWEVER CORVEL CONTINUES TO INVEST AMBITIOUSLY, AND IS COMMITTED TO CONTINUING ITS INVESTMENTS IN THE LONG RUN.**



**CORVEL HAS ALWAYS BUILT FOR THE FUTURE. OUR INVESTMENTS HAVE BEEN EXPENSIVE AND CONSUMING, BUT THEY ARE FED BY OUR PASSION TO FIND OUR WAY TO A DIFFERENT FUTURE.**

**WE CHOOSE TO MAKE A DIFFERENCE.**

INNOVATE

Of the many issues facing employers today, work related injuries are an important concern. Workers' compensation costs can range from 2% of wages, to as high as 10%, creating a \$135 billion dollar industry. In today's high priced environment, employers are finding workers' compensation to be expensive and complicated.

+\$135 billion

complexity

State regulations and now HIPAA have created healthcare compliance complexities. Unique state regulations and benefit schedules result in endless combinations of entitlements and create a blizzard of paperwork. Every part of the process is complex and costly. The market is in position for more advanced automated information processing.

BUILD

CorVel has a vision of patient friendly, automated and timely workers' compensation administration. Our investments in technology and systems total over \$150 million dollars and leverage the knowledge of dedicated product development and systems support team.

+\$150 million

efficiency

We have committed to building our own data centers, distributing computing to reach all parties involved and building our own healthcare transaction portal. Our service is one of information management. We communicate with all the constituents in disability management, managing the information involved. Technology has become a critical factor in our service offering.

GROW

+\$3.5 billion

outcomes

+1 million

IN THE END, CORVEL'S GOAL IS TO IMPROVE OUTCOMES FOR PATIENTS AS WELL AS FOR THOSE WHO PAY FOR HEALTHCARE. DELIVERING PATIENTS THE QUALITY CARE THEY NEED, HELPS THEM GET BACK TO WORK FASTER, AND CONTINUES TO BE THE MOST EFFECTIVE WAY TO REDUCE WORKERS' COMPENSATION COSTS. CORVEL HAS ASSISTED OVER 1 MILLION PATIENTS RETURN TO WORK AND SAVED PAYORS OVER \$3.5 BILLION DOLLARS.

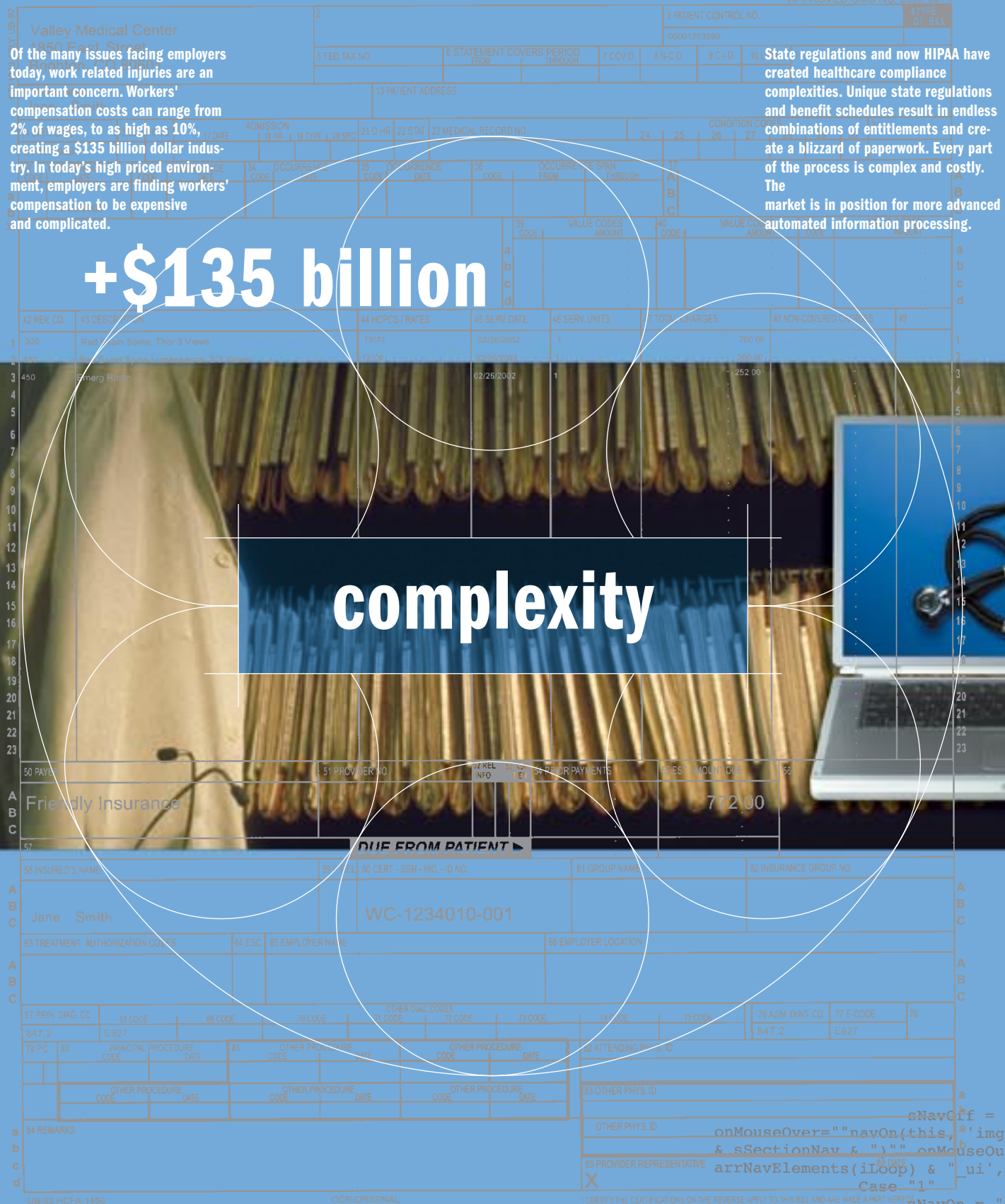
THERE STILL REMAINS MUCH TO DO IN CORVEL'S EFFORT TO IMPROVE THE ADMINISTRATION OF WORKERS' COMPENSATION. WE CONTINUE TO INNOVATE, BUILD AND GROW BY INVESTING AMBITIOUSLY IN TECHNOLOGY AND THE FOUNDATION OF OUR COMPANY - OUR NETWORK OF MORE THAN 3,500 EMPLOYEES AT 185 BRANCHES ACROSS THE COUNTRY. OUR GOALS INSPIRE OUR WORK AND SUPPORT OUR MISSION TO IMPROVE OUTCOMES.

Much of what makes disability management complex is the number of constituents, each with different information needs. We have brought these people and their needs together on Care™, providing real-time access to efficient and powerful processes. As a result, the cumbersome and complex paper system is replaced by CorVel's proprietary automated applications.

BUILDING OUTCOMES



CORVEL



**CORVEL CONTINUES TO INVEST IN THE FOUNDATION OF OUR COMPANY –  
OUR NETWORK OF MORE THAN 3,500 EMPLOYEES AT 185 BRANCHES ACROSS  
THE COUNTRY.**

**WE THANK THEM FOR THEIR ONGOING COMMITMENT AND HARD WORK.**



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