




CORVEL



MARKETS

CorVel offers industry leading healthcare management and information technology in the workers' compensation, group health and auto insurance markets.

Insight.

SERVICES

We make sure the appropriate treatment is delivered and that it is delivered efficiently via our care management and network solutions programs.

**The Company
continued its
investment in new services
and new technology,
consistent with
our philosophy of
*continuous improvement.***

President's Message

We are happy to have put last year behind us. Conditions impacting the end of fiscal 2004, extended through fiscal 2005. During the year workers' compensation industry claims volumes continued to decline. The impact of law changes in California and Colorado significantly reduced CorVel revenue in each state. Although conditions in the workers' compensation claims market remain depressed, the national economy continues to expand, creating an ever-improving labor market. Despite a difficult year, the Company continued its investment in new services and new technology, consistent with our philosophy of *continuous improvement*.

Although workers' compensation insurance premiums rose again in the last year, claims volumes were lower than in the previous year. In the past, claims have increased when the economy has been at or near full employment. The Company estimates that the combination of the weak labor market, changing state laws, strong productivity gains and improving loss prevention has created diminished claims volumes. In addition, regulatory changes for public companies and other governmental activities added to the cost of doing business.

Times such as these encourage us to examine our strategies, plans and operating methods. During the year we worked on three projects focused on improving operating efficiencies. The first of these was the implementation of the newest version of our MedCheck line of medical review software. During the prior year our field operations converted from a legacy medical review system to a web-enabled version. This last year we implemented document management, requiring substantial changes to our operations workflow. We converted most of our processing to incorporate scanned images and Optical Character Recognition. During the year we incurred the cost to implement and operate the new processes, without the related benefits. During the current year we expect to begin benefiting from the new technology.

Secondly, we have expanded our medical review product line, and the use of artificial intelligence tools to help manage workflow. Rules engine technology, together with the expanded service line, has allowed CorVel to achieve improved outcomes and customer service. During the current year the implementation of these improvements will extend throughout the Company's office network. As the new processes mature, we expect to further capitalize upon the use of workflow management.

The third project involves the balancing of internal resources to the reduced industry claims volumes, as well as increasing prices for some services. Sudden changes in the work volumes in California and Colorado caused imbalances in our workforce, and the resulting adjustments took some time to implement. In addition, we are matching prices for some services to the underlying costs as well as to the value added offered by these services. Increasing nursing salaries have impacted our costs for such services. We expect these changes to gradually return our field margins to more normal levels.

We continue to see opportunities to extend the Company's record of growth. Investments in technology, as well as in new services, continued in fiscal 2005. A second data center was completed to address business continuity exposures, and our primary center substantially expanded and enhanced. We are continuing the conversion of our applications to new computing and software infrastructure technologies. Substantial advances were achieved in the Company's MedCheck and Care^{MC} software. These applications meaningfully differentiate CorVel in the marketplace.

Our organization has distinguished itself in the difficult environment of the last couple of years. Our record has exceeded that of other industry participants. The strength and stability of the CorVel team has been increasingly visible to customers. I'd like to thank all the CorVel associates for delivering when the going got tough.

The pace of change in our industry continues at a high rate. Our investments this last year position the Company to continue expanding its role in the disability management marketplace.



Gordon Clemons
President and CEO

A woman with long, wavy brown hair, wearing a light blue button-down shirt, is shown in profile from the chest up. She is holding a black mobile phone to her ear and smiling slightly. The background is a blurred office environment with cubicles, desks, and other people working. In the foreground, a man in a blue shirt and tie is sitting at a desk, talking on a mobile phone and looking at a computer monitor. The overall scene is a professional office setting.

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