CORVEL CORP
Form 10-Q
February 06, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2011

or

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

For the transition period from to

Commission file number 0-19291

CORVEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**33-0282651**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
2010 Main Street, Suite 600	
Irvine, CA	**92614**
(Address of principal executive office)	**(zip code)**

Registrant s telephone number, including area code: (949) 851-1473

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 þ 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 þ No ¨

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

Large accelerated filer	¨	Accelerated filer	þ
Non-accelerated filer	¨	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The number of shares outstanding of the registrant s Common Stock, $0.0001 par value per share, as of January 31, 2012 was 11,348,561.

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Part I - Financial Information

Item 1. Financial Statements

CORVEL CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31, 2011	December 31, 2011 (Unaudited)
Assets		
Current Assets		
Cash and cash equivalents (Note A)	$ 12,269,000	$ 10,065,000
Customer deposits	5,279,000	4,671,000
Accounts receivable, net	48,964,000	46,119,000
Prepaid taxes and expenses	6,417,000	6,802,000
Deferred income taxes	9,298,000	9,971,000
Total current assets	82,227,000	77,628,000
Property and equipment, net	38,500,000	44,888,000
Goodwill	36,769,000	36,814,000
Other intangibles, net (Note F)	6,729,000	6,285,000
Other assets		272,000
TOTAL ASSETS	$ 164,225,000	$ 165,887,000
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts and taxes payable	$ 14,590,000	$ 14,260,000
Accrued liabilities	40,248,000	32,360,000
Total current liabilities	54,838,000	46,620,000
Deferred income taxes	9,748,000	9,748,000
Commitments and contingencies (Note G and H)		
Stockholders Equity		
Common stock, $.0001 par value: 60,000,000 and 120,000,000 shares authorized at March 31, 2011 and December 31, 2011, respectively; 26,122,084 shares issued (11,630,921 shares outstanding, net of Treasury shares) and 26,212,177 shares issued (11,372,421 shares outstanding, net of Treasury shares) at March 31, 2011 and December 31, 2011, respectively	3,000	3,000
Paid-in capital	100,073,000	104,738,000
Treasury Stock (14,491,163 shares at March 31, 2011 and 14,839,756 shares at December 31, 2011)	(248,931,000)	(265,195,000)
Retained earnings	248,494,000	269,973,000
Total stockholders equity	99,639,000	109,519,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 164,225,000	$ 165,887,000

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION

CONSOLIDATED INCOME STATEMENTS UNAUDITED

	Three Months Ended December 31, 2010	2011
REVENUES	$ 95,282,000	$ 101,381,000
Cost of revenues	71,461,000	80,155,000
Gross profit	23,821,000	21,226,000
General and administrative expenses	12,425,000	12,332,000
Income before income tax provision	11,396,000	8,894,000
Income tax provision	4,672,000	3,494,000
NET INCOME	$ 6,724,000	$ 5,400,000
Net income per common and common equivalent share		
Basic	$ 0.57	$ 0.47
Diluted	$ 0.56	$ 0.47
Weighted average common and common equivalent		
Basic	11,749,000	11,421,000
Diluted	11,984,000	11,574,000

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION

CONSOLIDATED INCOME STATEMENTS UNAUDITED

	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2011
REVENUES	$ 280,177,000	$ 308,241,000
Cost of revenues	209,314,000	235,859,000
Gross profit	70,863,000	72,382,000
General and administrative expenses	38,082,000	37,218,000
Income before income tax provision	32,781,000	35,164,000
Income tax provision	10,764,000	13,685,000
NET INCOME	$ 22,017,000	$ 21,479,000
Net income per common and common equivalent share		
Basic	$ 1.86	$ 1.86
Diluted	$ 1.82	$ 1.84
Weighted average common and common equivalent		
Basic	11,855,000	11,521,000
Diluted	12,091,000	11,677,000

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	Nine Months Ended December 31, 2010	2011
Cash flows from Operating Activities		
NET INCOME	$ 22,017,000	$ 21,479,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,025,000	10,613,000
Loss on disposal of assets	120,000	158,000
Stock compensation expense	1,894,000	1,870,000
Write-off of uncollectible accounts	1,939,000	1,602,000
Deferred income tax	(986,000)	(673,000)
Changes in operating assets and liabilities		
Accounts receivable	(1,428,000)	1,243,000
Customer deposits	(1,528,000)	608,000
Prepaid taxes and expenses	2,312,000	(385,000)
Other assets	210,000	(272,000)
Accounts and taxes payable	1,127,000	(330,000)
Accrued liabilities	3,488,000	(7,888,000)
Net cash provided by operating activities	38,190,000	28,025,000
Cash Flows from Investing Activities		
Acquisition, net of cash	(1,235,000)	(45,000)
Purchase of property and equipment	(13,619,000)	(16,715,000)
Net cash (used in) investing activities	(14,854,000)	(16,760,000)
Cash Flows from Financing Activities		
Purchase of treasury stock	(22,780,000)	(16,264,000)
Tax effect of stock option exercises	1,757,000	1,009,000
Exercise of common stock options	3,054,000	1,629,000
Exercise of employee stock purchase options	160,000	157,000
Net cash (used in) financing activities	(17,809,000)	(13,469,000)
Increase in cash and cash equivalents	5,527,000	(2,204,000)
Cash and cash equivalents at beginning of period	10,242,000	12,269,000
Cash and cash equivalents at end of period	$ 15,769,000	$ 10,065,000
Supplemental Cash Flow Information:		
Income taxes paid	$ 8,954,000	$ 12,707,000
Purchase of software license under finance agreement	$ 1,700,000	$ 861,000
Accrual of legal settlement		$ 2,800,000

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

Note A Basis of Presentation and Summary of Significant Accounting Policies

The unaudited financial statements herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying interim financial statements have been prepared under the presumption that users of the interim financial information have either read or have access to the audited financial statements for the latest fiscal year ended March 31, 2011. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the March 31, 2011 audited financial statements have been omitted from these interim financial statements.

In accordance with ASU 2010-09, the Company evaluated all subsequent events or transactions. During the period subsequent to December 31, 2011, the Company repurchased 37,794 shares for $1.92 million or $50.85 average price per share. These shares were repurchased under the Company s ongoing share repurchase program described in Note C. Subsequent to December 31, 2011, the Company s Board of Directors approved an increase in the number of shares authorized to be repurchased from 15 million shares to 16 million shares for a one million share increase. See also Footnote C, Treasury Stock.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and nine months ended December 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2012. For further information, refer to the consolidated financial statements and footnotes for the fiscal year ended March 31, 2011 included in the Company s Annual Report on Form 10-K.

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

Use of Estimates: The preparation of financial statements in compliance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Actual results could differ from those estimates. Significant estimates include the values assigned to intangible assets, the allowance for doubtful accounts, accrual for income taxes, purchase price allocation for acquisitions, accrual for self-insurance reserves, share-based payments related to performance based awards, loss contingencies, estimated claims for claims administration revenue recognition, and estimates used in stock option valuations.

Recent Accounting Pronouncements: In September 2011, the FASB amended existing guidance related to intangibles - goodwill by giving an entity the option to first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If this is the case, companies will need to perform a more detailed two-step goodwill impairment test which is used to identify potential goodwill impairments and to measure the amount of goodwill impairment losses to be recognized, if any. This pronouncement is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We adopted this guidance in the quarter ended December 31, 2011. The adoption of this guidance did not have a material impact on our financial statements.

Cash and Cash Equivalents: Cash and cash equivalents consist of short-term highly-liquid investment-grade interest-bearing securities with maturities of 90 days or less when purchased.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

Note A Basis of Presentation and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments: The Company applies ASC 820, Fair Value Measurements and Disclosures with respect to fair value measurements of (a) 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 (b) 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 approximate their fair values at March 31, 2011 and December 31, 2011. The Company has no Level 2 or Level 3 assets.

Goodwill: The Company accounts for its business combinations in accordance with FASB ASC 805-10 through ASC 805-50 *Business Combinations* which requires that the purchase method of accounting be applied to all business combinations and addresses the criteria for initial recognition of intangible assets and goodwill. In accordance with FASB 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 shall be recognized.

Revenue Recognition: The Company recognizes revenue when there is persuasive evidence of an arrangement, the services have been provided to the customer, the sales price is fixed or determinable, and collectability is reasonably assured. For the Company s services, as the Company s professional staff performs work, they are contractually permitted to bill for fees earned in fraction of an hour increments worked or by units of production. The Company recognizes revenue as the time is worked 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 multiple element arrangements in accordance with the guidance included in ASC 605-25.

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