

CORVEL CORP
Form DEF 14A
August 17, 2005

SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(AMENDMENT NO. __)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

O Preliminary Proxy Statement

X Definitive

Proxy

Statement

O Confidential, for

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(as permitted by

Rule 14a-6(e)(2))

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to §240.14a-12

CORVEL CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

X Fee not required.

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(1) Amount Previously Paid:

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(2) Form,
Schedule or
Registration
Statement No.:

(3) Filing Party:

(4) Date Filed:

August 17, 2005

Dear CorVel Stockholder:

We are pleased to invite you to our 2005 Annual Meeting which will be held at CorVel's principal executive offices at 2010 Main Street, Suite 600, Irvine, California 92614, on Thursday, September 15, 2005, at 1:00 p.m. Pacific Daylight Time. Voting on election of directors and other matters is also scheduled. The items to be voted on at the 2005 Annual Meeting are addressed in the enclosed Notice of Annual Meeting of Stockholders and Proxy Statement. Several significant milestones reached in fiscal 2005 deserve special mention:

CorVel reported revenues of \$291 million for the fiscal year ended March 31, 2005.

CorVel continued to invest in its MedCheck medical review software, which offers unique Application Service Provider (ASP) solutions for large insurers and third party administrators (TPAs).

CorVel expanded Preferred Provider Networks (PPO) operations 5.6% year-over-year, despite a drop in industry claims volume.

CorVel's healthcare management portal CareMC has been expanded to include increasing integration with the claims systems of insurers and TPAs, integrating scanning and document management features allowing CareMC customers to implement advanced workflow management techniques tailored to their own unique needs.

Your vote is important. Whether or not you plan to attend the Annual Meeting, please complete and mail the enclosed proxy card to ensure that your shares will be represented at the meeting. A postage pre-paid envelope has been provided for your convenience.

We look forward to seeing you at our Annual Meeting.

Sincerely,

V. Gordon Clemons,

Chairman of the Board, Chief Executive Officer and President

CorVel Corporation
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held September 15, 2005

To the Stockholders of CorVel Corporation:

Notice is hereby given that the 2005 Annual Meeting of Stockholders (the Annual Meeting) of CorVel Corporation, a Delaware corporation (the Company), will be held at the Company s principal executive offices, at 2010 Main Street, Suite 600, Irvine, California 92614, on Thursday, September 15, 2005, at 1:00 p.m. Pacific Daylight Time for the following purposes, as more fully described in the Proxy Statement accompanying this Notice:

1. To elect five directors to serve until the 2006 annual meeting of stockholders;
2. To approve amendments to the Company s 1991 Employee Stock Purchase Plan (the Purchase Plan) to (i) avoid compensation expense charges under a new accounting rule, and (ii) increase the maximum number of shares of Common Stock reserved for issuance over the term of the Purchase Plan from 750,000 shares to 950,000 shares;
3. To ratify the appointment of Grant Thornton LLP as independent auditors of the Company for the fiscal year ending March 31, 2006; and
4. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only stockholders of record at the close of business on August 5, 2005, are entitled to notice of and to vote at the Annual Meeting and any adjournment thereof. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at the principal executive offices of the Company and at the Annual Meeting.

You are cordially invited to attend the Annual Meeting in person. Whether or not you plan to attend the Annual Meeting, you can be sure your shares are represented at the meeting by promptly voting and submitting your proxy by completing, signing, dating and returning the enclosed proxy card in the enclosed, self-addressed, postage pre-paid envelope provided for your convenience. Should you receive more than one proxy because your shares are registered in different names and addresses, each proxy should be signed and returned to assure that all your shares will be voted.

The holders of a majority of the outstanding shares of Common Stock of the Company entitled to vote must be present in person or represented by proxy at the Annual Meeting in order to constitute a quorum for the transaction of business. Please return your proxy card in order to ensure that a quorum is obtained and to avoid the additional cost to the Company of adjourning the Annual Meeting until a later time and resoliciting proxies.

YOUR VOTE IS IMPORTANT. PLEASE READ THE ATTACHED PROXY STATEMENT CAREFULLY.

By order of the Board of Directors,

RICHARD J. SCHWEPPE

Secretary

Irvine, California

August 17, 2005

CorVel Corporation
PROXY STATEMENT

Proxies are being solicited on behalf of the Company's Board of Directors (the Board) for use at the Annual Meeting, which will be held at the Company's principal executive offices located at 2010 Main Street, Suite 600, Irvine, California 92614, on Thursday, September 15, 2005, at 1:00 p.m. Pacific Daylight Time, and at any adjournment or postponement thereof (the Annual Meeting). Stockholders of record at the close of business on August 5, 2005, are entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement of that meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at the principal executive offices of the Company and at the Annual Meeting.

On August 5, 2005, the record date (the Record Date) for determination of stockholders entitled to notice of and to vote at the Annual Meeting, there were 9,882,108 shares of Common Stock of the Company outstanding and approximately 1204 holders of record according to information provided by the Company's transfer agent. No shares of the Company's preferred stock were outstanding as of August 5, 2005. Each stockholder is entitled to one vote on all matters brought before the Annual Meeting for each share of Common Stock of the Company held by such stockholder on the Record Date. Stockholders may not cumulate votes in the election of directors.

The presence at the Annual Meeting, either in person or by proxy, of holders of a majority of the outstanding shares of Common Stock of the Company entitled to vote will constitute a quorum for the transaction of business. In the election of directors under Proposal One, the five nominees receiving the highest number of affirmative votes shall be elected. The affirmative vote of the holders of Common Stock of the Company representing a majority of the voting power present or represented by proxy at the Annual Meeting and entitled to vote on the subject matter is required for approval of Proposal Two and is being sought for approval of Proposal Three.

All votes will be tabulated by the Company's inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Abstentions and broker non-votes are counted as present for purposes of determining whether a quorum exists for the transaction of business at the Annual Meeting. With regard to Proposal One, broker non-votes and votes marked withheld will not be counted towards the tabulations of votes cast on such proposal presented to the stockholders. With regard to Proposals Two and Three, abstentions will be counted towards the tabulations of votes cast on such proposals presented to the stockholders and will have the same effect as negative votes, whereas broker non-votes will not be counted for purposes of determining whether such proposals have been approved.

If the enclosed proxy card is properly signed and returned, the shares represented thereby will be voted at the Annual Meeting in accordance with the instructions specified thereon. If the proxy card does not specify how the shares represented thereby are to be voted, the proxy will be voted **FOR** the election of the directors in Proposal One unless the authority to vote for the election of such directors is withheld and, if no contrary instructions are given, the proxy will be voted **FOR** the approval of Proposal Two and **FOR** the ratification of Proposal Three described in the accompanying Notice and this Proxy Statement. In their discretion, the proxies named on the proxy card will be authorized to vote upon any other matter that may properly come before the Annual Meeting or any adjournment or postponement thereof. A proxy may be revoked or changed at or prior to the Annual Meeting by delivery of a written revocation or by presentation of another properly signed proxy card with a later date to the Secretary of the Company at the Company's principal executive offices at 2010 Main Street, Suite 600, Irvine, California 92614, or by attendance at the Annual Meeting and voting in person by ballot.

This Proxy Statement, the enclosed proxy card and the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, were mailed on or about August 17, 2005 to stockholders of record on August 5, 2005.

The principal executive offices of the Company are located at 2010 Main Street, Suite 600, Irvine, California 92614. The Company's telephone number is (949) 851-1473.

**MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING
PROPOSAL ONE
ELECTION OF DIRECTORS**

Five individuals have been nominated to serve as directors of the Company. The Company's stockholders are being asked to elect these nominees to the Board at the Annual Meeting. The Company's Nomination and Governance Committee selected and recommended, and the Board, including its independent directors, approved the nomination of, each of the five individuals listed below for election to serve for a one-year term ending on the date of the Company's next annual meeting of stockholders or until his successor has been duly elected and qualified. The term may be shorter if such individual resigns, becomes disqualified or disabled, or is otherwise removed.

Unless otherwise instructed or unless the proxy is marked "withheld," the proxy holders will vote the proxies received by them **FOR** the election of each of the nominees named below. Each such nominee is currently serving as a director and has indicated his willingness to continue to serve as a director if elected. In the event that any such nominee becomes unable or declines to serve at the time of the Annual Meeting, the proxy holders will exercise discretionary authority to vote for a substitute person selected and recommended by the Company's Nomination and Governance Committee and nominated by the Board.

Director Nominees for Term Ending Upon the 2006 Annual Meeting of Stockholders

The names and certain information as of May 31, 2005 about the nominees for director are set forth below:

Name	Age	Position
V. Gordon Clemons	61	Chairman of the Board, Chief Executive Officer and President
Steven J. Hamerslag(1)(2)(3)	49	Director
Alan R. Hoops(1)(2)	57	Director
R. Judd Jessup(1)	57	Director
Jeffrey J. Michael(2)(3)	48	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nomination and Governance Committee.

Mr. Clemons joined the Company as President and Chief Executive Officer in January 1988 and became Chairman of the Board in April 1991. Mr. Clemons was President of Caremark, Inc., the then-largest home intravenous therapy company in the United States, from May 1985 to September 1987, at which time the company was purchased by Baxter International, Inc. From 1981 to 1985, Mr. Clemons was President of INTRACORP, a medical management company and subsidiary of CIGNA Corporation. Mr. Clemons has 28 years of experience in the healthcare and insurance industries.

Mr. Hamerslag has served as a director of the Company since May 1991. Mr. Hamerslag has been Managing Director of Titan Investment Partners, a venture capital firm, since November 2002. Mr. Hamerslag served as the President and Chief Executive Officer of publicly held J2Global Communications, a unified communication services company, from June 1999 until January 2001. Mr. Hamerslag served as the CEO of publicly held MTI Technology Corporation, a manufacturer of enterprise storage solutions, from 1987 to 1996.

Mr. Hoops has served as a director of the Company since May 2003. Mr. Hoops has been Chairman of Benu, Inc., a regional benefits administration/marketing company since 2000, and Chairman of Enwisen, Inc., a human resources services software company since 2001. Mr. Hoops was Chief Executive Officer and a Director from 1993 to 2000, of Pacificare Health Systems, Inc., a national health consumer services company. Mr. Hoops has 32 years of experience in the healthcare and managed care industries.

Mr. Jessup has served as a director of the Company since August 1997. Mr. Jessup has been Chief Executive Officer of U.S. LABS since April 2002. U.S. LABS is a national laboratory which provides cancer diagnostic and genetic testing services. Mr. Jessup was President of the HMO Division of FHP International Corporation, a diversified health care services company, from 1994 to 1996. From 1987 to 1994, Mr. Jessup was President of TakeCare, Inc., a publicly traded HMO operating in California, Colorado, Illinois and Ohio, until it was acquired by FHP. Mr. Jessup has 31 years of experience in the healthcare and managed care industries. Mr. Jessup has been a director of Pacific Dental Benefits, a dental HMO, since November 1997, a director of U.S. LABS since May 1998, and a director of NovaMed Eyecare Services since August 1998.

Mr. Michael has served as a director of the Company since September 1990. Mr. Michael has been the President, Chief Executive Officer and a director of Corstar Holdings, Inc., one of the Company's significant stockholders and a holding company owning businesses engaged in voice and data connectivity and networking products and services, since March 1996. Mr. Michael has been a director of Michael Foods, Inc., a food processing and distribution company formerly affiliated with North Star (predecessor of Corstar Holdings), since April 1990.

There are no family relationships among any of the Company's directors or executive officers.

Corporate Governance, Board Composition and Board Committees

Independent Directors

The Board has determined that each of the Company's current directors other than Mr. Clemons qualifies as an independent director in accordance with the published listing requirements of the Nasdaq Stock Market (Nasdaq). The Nasdaq independence definition includes a series of objective tests, such as that the director is not also one of the Company's employees and has not engaged in various types of business dealings with the Company. In addition, as further required by the Nasdaq rules, the Board has made a subjective determination as to each independent director that no relationships exist which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, the Company's directors reviewed and discussed information provided by the directors and the Company with regard to each director's business and personal activities as they may relate to the Company and the Company's management.

Board Structure and Committees

The Board has established an audit committee, a compensation committee and a nomination and governance committee. The Board and its committees set schedules to meet throughout the year, and also can hold special meetings and act by written consent from time to time as appropriate. The independent directors of the Board also hold separate regularly scheduled executive session meetings at least twice a year at which only independent directors are present. The Board has delegated various responsibilities and authority to its committees as generally described below. The committees will regularly report on their activities and actions to the full Board. Each member of each committee of the Board qualifies as an independent director in accordance with the Nasdaq standards described above. Each committee of the Board has a written charter approved by the Board. A copy of each charter is posted on the Company's web site at <http://www.corvel.com> under the Investor Relations section. The inclusion of the Company's web site address in this Proxy Statement does not include or incorporate by reference the information on the Company's web site into this Proxy Statement or the Company's Annual Report on Form 10-K. In addition, a copy of the charter of the audit committee is included as Appendix A to the Company's definitive proxy statement for the 2004 annual meeting of stockholders filed with the Securities and Exchange Commission (SEC) on July 7, 2004.

Audit Committee

The audit committee of the Board reviews and monitors the Company's corporate financial statements and reporting and the Company's internal and external audits, including, among other things, the Company's internal controls and audit functions, the results and scope of the annual audit and other services provided by the Company's independent auditors and the Company's compliance with legal matters that have a significant impact on the Company's financial statements. The Company's audit committee also consults with the Company's management and the Company's independent auditors prior to the presentation of financial statements to stockholders and, as appropriate, initiates inquiries into aspects of the Company's financial affairs.

The Company's audit committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters. In addition, the Company's audit committee is directly responsible for the appointment, retention, compensation and oversight of the work of the Company's independent auditors, including approving services and fee arrangements. All related party transactions are approved by the Company's audit committee before the Company enters into them. The current members of the Company's audit committee are Messrs. Hamerslag, Hoops and Jessup. Mr. Michael was a member of the audit committee during fiscal year 2005 until his resignation from the audit committee on May 6, 2004. The vacancy created on the audit committee by Mr. Michael's resignation was filled by Mr. Hoops in May 2004. The audit committee held four meetings during fiscal 2005.

In addition to qualifying as independent under the Nasdaq rules described above, each member of the Company's audit committee can read and has an understanding of fundamental financial statements, and each member currently qualifies as independent under special standards established by the SEC for members of audit committees. The Company's audit committee includes at least one member who has been determined by the Board to meet the qualifications of an audit committee financial expert in accordance with SEC rules. Mr. Hamerslag is the independent director who has been determined to be an audit committee financial expert. Stockholders should understand that this designation is a disclosure requirement of the SEC related to Mr. Hamerslag's experience and understanding with respect to certain accounting and auditing matters. The designation does not impose on Mr. Hamerslag any duties, obligations or liability that are greater than are generally imposed on him as a member of the Company's audit committee and the Board, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Company's audit committee or Board.

Compensation Committee

The compensation committee of the Board reviews and approves the Company's general compensation policies and all forms of compensation to be provided to the Company's executive officers and directors, including, among other things, annual salaries, bonuses, and stock option and other incentive compensation arrangements. In addition, the Company's compensation committee administers the CorVel Corporation 1991 Employee Stock Purchase Plan and the CorVel Corporation Restated 1988 Executive Stock Option Plan, as amended (the "Option Plan"), including reviewing and granting stock options. The Company's compensation committee also reviews and approves various other of the Company's compensation policies and matters. The current members of the Company's compensation committee are Messrs. Hamerslag, Hoops and Michael. The compensation committee held four meetings during fiscal 2005.

Nomination and Governance Committee

The nomination and governance committee of the Board reviews and reports to the Board on a periodic basis with regard to matters of corporate governance, and reviews, assesses and makes recommendations on the effectiveness of the Company's corporate governance policies. In addition, the nomination and governance committee reviews and makes recommendations to the Board regarding the size and composition of the Board and the appropriate qualities and skills required of the Company's directors in the context of the then current make-up of the Board.

This includes an assessment of each candidate's independence, personal and professional integrity, financial literacy or other professional or business experience relevant to an understanding of the Company's business, ability to think and act independently and with sound judgment, and ability to serve the Company's and the Company's stockholders long-term interests. These factors, and others as considered useful by the Company's nomination and governance committee, are reviewed in the context of an assessment of the perceived needs of the Board at a particular point in time. As a result, the priorities and emphasis of the nomination and governance committee and of the Board may change from time to time to take into account changes in business and other trends, and the portfolio of skills and experience of current and prospective directors.

The nomination and governance committee leads the search for and selects, or recommends that the Board select, candidates for election to the Board (subject to legal rights, if any, of third parties to nominate or appoint directors). Consideration of new director candidates typically involves a series of committee discussions, review of information concerning candidates and interviews with selected candidates. Candidates for nomination to the Board typically have been suggested by other members of the Board or by the Company's executive officers. From time to time, the nomination and governance committee may engage the services of a third-party search firm to identify director candidates. Each of the current nominees is standing for re-election at the Annual Meeting. The nomination and governance committee selected these candidates and recommended their nomination to the Board. The current members of the Company's nomination and governance committee are Messrs. Hamerslag and Michael. The nomination and governance committee held one meeting during fiscal 2005.

Although the nomination and governance committee does not have a formal policy on stockholder nominations, it will consider candidates proposed by stockholders of any outstanding class of the Company's capital stock entitled to vote for the election of directors, provided such proposal is in accordance with the procedures set forth in the Company's Bylaws and in the charter of the nomination and governance committee. Nominations by such stockholders must be preceded by notification in writing received by the Company's Secretary, at 2010 Main Street, Suite 600, Irvine, California 92614, not less than sixty (60) days prior to any meeting of stockholders called for the election of directors. Such notification shall contain the written consent of each proposed nominee to serve as a director is so elected and the following information as to each proposed nominee and as to each person, acting alone or in conjunction with one or more other persons as a partnership, limited partnership, syndicate or other group, who participates or is expected to participate in making such nomination or in organizing, directing or financing such nomination or solicitation of proxies to vote for the nominee: (a) the name, age, residence, address, and business address of each proposed nominee and of each such person; (b) the principal occupation or employment, the name, type of business and address of the corporation or other organization in which such employment is carried on of each proposed nominee and of each such person; (c) the amount of the Company's stock owned beneficially, either directly or indirectly, by each proposed nominee and each such person; and (d) a description of any arrangement or understanding of each proposed nominee and of each such person with each other or any other person regarding future employment or any future transaction to which the Company will or may be a party. All such recommendations will be brought to the attention of the Company's nomination and governance committee. Candidates proposed by stockholders will be evaluated by the Company's nomination and governance committee using the same criteria as for all other candidates.

Board and Committee Meetings

The Board held four meetings during fiscal 2005. Each director attended or participated in 75% or more of the aggregate of (i) the total number of meetings of the Board and (ii) the total number of meetings held by all committees of the Board on which such director served during fiscal 2005. Although the Company does not have a formal policy regarding attendance by members of the Board at the Company's annual meetings of stockholders, directors are encouraged and expected to attend each of the Company's annual meetings of stockholders in addition to each meeting of the Board and of the committees on which he or she serves. All of the Company's directors attended the Company's 2004 annual meeting of stockholders.

Code of Ethics and Business Conduct

The Board has adopted a code of ethics and business conduct that applies to all of the Company's employees, officers (including the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) and directors. The full text of the Company's code of ethics and business conduct is posted on the Company's web site at <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 (including the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), at the same location on the Company's web site identified above. The inclusion of the Company's web site address in this proxy does not include or incorporate by reference the information on the Company's web site into this proxy or the Company's Annual Report on Form 10-K.

Communications from Stockholders to the Board

The Board has implemented a process by which stockholders may send written communications to the attention of the Board, and committee of the Board or any individual Board member, care of the Company's Secretary at 2010 Main Street, Suite 600, Irvine, CA 92614. This centralized process will assist the Board in reviewing and responding to stockholder communications in an appropriate manner. The name of any specific intended Board recipient should be noted in the communication. The Company's Secretary, with the assistance of the Company's Director of Legal Services, will be primarily responsible for collecting, organizing and monitoring communications from stockholders and, where appropriate depending on the facts and circumstances outlined in the communication, providing copies of such communications to the intended recipients. Communications will be forwarded to directors if they relate to appropriate and important substantive corporate or board matters. Communications that are of a commercial or frivolous nature or otherwise inappropriate for the Board's consideration will not be forwarded to the Board. Any communications not forwarded to the Board will be retained for a period of three months and made available to any of the Company's independent directors upon their general request to view such communications.

Compensation of Directors

Each non-employee director receives an amount equal to \$2,000 for each Board meeting attended in person, as well as reimbursement for all associated travel expenses. Other than the Chairman of the Audit Committee, who in fiscal 2006 will begin receiving \$1,000 for each Audit Committee meeting attended, the directors do not receive fees for committee or telephonic meetings.

When an individual who has not previously been in the employ of the Company first becomes a non-employee member of the Board, he or she will receive an automatic option grant for 15,000 shares of Common Stock under the Option Plan. In addition, on the date of each annual stockholders meeting, each non-employee director who has served as a non-employee Board member for at least six months, whether or not such individual has been in the prior employ of the Company, will be granted an option to purchase 4,500 shares of Common Stock.

Accordingly, as a non-employee director who was re-elected at the 2004 annual meeting of stockholders, each of Messrs. Hamerslag, Hoops, Jessup and Michael received an option to purchase 4,500 shares of Common Stock on August 5, 2004 (the date of the 2004 annual meeting of stockholders), with an exercise price of \$25.71, which was the fair market value of the Common Stock on such date. In addition, each of Messrs. Hamerslag, Hoops, Jessup, and Michael will be granted an option to purchase an additional 4,500 shares of Common Stock on August 4, 2005 (the date of the Annual Meeting) at an exercise price equal to the fair market value of the Common Stock on such date, provided such director is re-elected at the Annual Meeting, and maximum term of ten years measured from the grant date. Each automatic grant will become exercisable in a series of four equal and successive annual

installments over the optionee's period of Board service, with the first such installment to become exercisable twelve months after the grant date.

Stockholder Approval

Directors are elected by a plurality of the votes present or represented by proxy at the Annual Meeting. The five nominees receiving the highest number of affirmative votes cast at the Annual Meeting will be the elected directors of the Company.

THE BOARD RECOMMENDS A VOTE FOR EACH OF THE NOMINEES NAMED ABOVE.

PROPOSAL TWO

AMENDMENTS TO 1991 EMPLOYEE STOCK PURCHASE PLAN

The Company's stockholders are being asked to approve amendments to the Company's 1991 Employee Stock Purchase Plan (the "Purchase Plan") to (i) avoid compensation expense charges under Statement of Financial Accounting Standards No. 123 (revised 2004), *Accounting for Stock-Based Compensation* (SFAS 123(R)), for employee stock purchases pursuant to the Purchase Plan as currently in effect, and (ii) increase the maximum number of shares of Common Stock reserved for issuance over the term of the Purchase Plan from 750,000 shares to 950,000 shares.

The Purchase Plan became effective on October 1, 1991. It has been amended and restated on several occasions. The amendments to the Purchase Plan for which stockholder approval is sought under this Proposal were approved by the Board on May 5, 2005.

Proposed Amendments

SFAS 123(R)

The Financial Accounting Standards Board has adopted SFAS 123(R) regarding the expensing of employee stock-based compensation, which requires companies to report the fair value of their stock-based compensation. Although most of the attention regarding SFAS 123(R) has focused on employee stock options, it also applies to employee stock purchase plans such as the Purchase Plan and treats the purchase rights granted to employees under such plans as options that must be so valued.

The Purchase Plan as currently in effect provides that the purchase price of the Company's Common Stock acquired at the end of each purchase period is equal to the lesser of (i) 85% of the fair market value per share of Common Stock on the date on which such purchase right is granted or (ii) 85% of the fair market value per share of Common Stock on the date on which the purchase right is exercised. Accordingly, employees are currently afforded a 15% discount on the fair market value of the Company's Common Stock, and further given the benefit of "looking back" and using the fair market value of the Company's Common Stock on the date their purchase right was granted if lower than the fair market value of the Company's Common Stock on the date they exercise their purchase right, which is the last day of the purchase period.

To avoid compensation expense charges under SFAS 123(R), the Company needs to change the way the purchase price is determined and the discount on fair market value that is provided. Accordingly, the Company must sell its Common Stock under the Purchase Plan to participants based only on the fair market value of the Common Stock as of the end of the purchase period in order to eliminate the "look back" to the fair market value of the Common Stock on the date the purchase right was granted. In addition, there can only be a maximum discount of 5% of the fair market value of the Common Stock. Under the proposed amendment, the purchase price for the Company's

Common Stock under the Purchase Plan will be 95% of the fair market value of the Company's Common Stock on the last day of the purchase period.

Increase in Shares Reserved for Issuance under the Purchase Plan

The Company currently has 750,000 shares of Common Stock reserved for issuance under the Purchase Plan. However, as of June 1, 2005, 715,733 shares of Common Stock have been issued under the Purchase Plan and only 34,267 shares were available for issuance. Consequently, the Company has few shares available for existing and future employees. As of June 1, 2005, the Company had 9,909,417 shares of Common Stock outstanding. The future issuance of additional shares of Common Stock pursuant to the Purchase Plan will have the effect of diluting the ownership interest of existing stockholders; however, the Board believes that the issuance of stock under the Purchase Plan is an effective compensation tool from both a perspective of remuneration as well as retention.

Description of the Purchase Plan as Amended

The following is a summary of the terms and provisions of the Purchase Plan, including the amendments which will become effective upon stockholder approval of this Proposal. This summary, however, does not purport to be a complete description of the Purchase Plan. Copies of the actual plan document may be obtained by any stockholder upon written request to the Corporate Secretary at the Company's executive offices at 2010 Main Street, Suite 600, Irvine, CA 92614.

Purpose

The purpose of the Purchase Plan is to provide eligible employees of the Company and its participating subsidiaries with the opportunity to acquire a proprietary interest in the Company through participation in a plan intended to qualify for the favorable tax benefits afforded employee stock purchase plans under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code").

Administration

The Purchase Plan is administered by the Compensation Committee. The Compensation Committee has full authority to adopt administrative rules and procedures and to interpret the provisions of the Purchase Plan. All costs and expenses incurred in the administration of the Purchase Plan will be paid by the Company without charge to participants.

Shares Subject to the Purchase Plan

The maximum number of shares that may be issued over the term of the Purchase Plan is 950,000 shares. The Common Stock purchasable under the Purchase Plan may be either shares newly-issued by the Company or shares reacquired by the Company, including shares purchased on the open market. As of June 1, 2005, 715,733 shares of Common Stock have been issued under the Purchase Plan.

In the event any change is made to the Common Stock (whether by reason of recapitalization, stock dividend, stock split, combination of share, or other similar change in corporate structure effected without receipt of consideration), appropriate adjustments will be made to (i) the class and maximum number of shares issuable over the term of the Purchase Plan, (ii) the class and maximum number of shares purchasable per participant under any outstanding purchase right and (iii) the class and number of shares purchasable and the price per outstanding purchase right.

Eligibility and Participation

Any individual who is customarily employed by the Company or a participating subsidiary for more than 20 hours per week and more than five months per calendar year will be eligible to participate in the Purchase Plan. However,

employees of the Company who are deemed to be Highly Compensated Employees under Code Section 414(q) will not be eligible to participate in the Purchase Plan for one or more purchase periods if, on the first day of any such purchase period, they hold unvested options under the Option Plan to purchase more than 30,000 shares of Common Stock. An individual who is eligible to participate in the Purchase Plan on the first day of a purchase period may join at the time.

As of June 1, 2005, approximately 2,900 employees, including one executive officer, were eligible to participate in the Purchase Plan.

Purchase Period

Each purchase period under the Purchase Plan will be six calendar months long. Purchase periods being on the first day of April and October each year. Each participant has a separate purchase right for each purchase in which he or she participates. The purchase right is granted on the first business day of the purchase period and will be automatically exercised on the last business day of the purchase period.

Purchase Price

The purchase price of the Common Stock acquired at the end of each purchase period will equal 95% of the fair market value per share of Common Stock on the last day of the purchase period.

The fair market value of the Common Stock on any relevant date will be the closing selling price per share on such date as reported on the National Market and published in *The Wall Street Journal*. The closing selling price per share of Common Stock on the Nasdaq National Market on May 31, 2005, was \$26.54 per share.

Purchase Rights; Stock Purchases

Each participant may authorize periodic payroll deductions in any multiple of \$10.00, up to a dollar maximum not in excess of 20% of his or her base pay each purchase period to be applied toward the purchase of shares of Common Stock under the Purchase Plan. Base pay includes the participant's regular salary or wages, plus the commissions received during the purchase period, plus any pre-tax contributions made by such individual to the Company's Section 401 (k) Plan, but excludes overtime, bonuses and other incentive-type payments.

On the last business day of each purchase period, the payroll deductions of each participant are automatically applied to the purchase of whole shares of Common Stock at the purchase price in effect for that purchase period. Any amount remaining in the Participant's account after purchasing whole shares shall be refunded to the participant at the end of each purchase period.

Special Limitations

The Purchase Plan imposes certain limitations upon a participant's rights to acquire Common Stock, including the following limitations:

Purchase rights may not be granted to any individual who would, immediately after the grant, own stock (including stock purchasable under any outstanding purchase rights) or hold outstanding options or other rights possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or any parent or subsidiary.

No participants may purchase more than 1,000 shares of Common Stock during one purchase period.

Purchase rights granted to a participant may not permit such individual to purchase more than \$25,000 worth of Common Stock (valued at the time each purchase right is granted) during any one calendar year.

Termination of Purchase Rights

The purchase right of a participant will terminate if the participant ceases to be eligible to participate. Any payroll deductions which the participant may have made with respect to the terminated purchase right will be refunded. If the participant withdraws from the Purchase Plan or ceases active employment during the purchase period by reason of disability, death, or leave of absence, the participant (or the personal representative of his estate) will be refunded any payroll deductions already made in that purchase period or may have the right to elect to have such payroll deductions applied to the purchase of Common Stock at the end of that purchase period.

Stockholder Rights

No participant will have any stockholder rights with respect to the shares covered by his or her purchase rights until shares are actually purchased on the participant's behalf. No Adjustments will be made for dividends, distributions or other rights for which the record date is prior to the date of such purchase.

Assignability

No Purchase right will be assignable or transferable by participant, except by will or by the laws of descent and distribution, and the purchase rights will be exercisable only by the participant.

Merger or Liquidation of Company

In event the Company or its stockholders enter into an agreement to dispose of all or substantially all of the assets or outstanding capital stock of the Company means of a sale, merger or reorganizations (other than a reorganization effected primarily to change the state in which the Company is incorporated) or in the event the Company is liquidated, all outstanding purchase rights will automatically be exercised immediately prior to the effective date of such sale, merger, reorganization or liquidation, by applying all payroll deductions previously collected from participants during the purchase period of such transaction toward the purchase of whole shares of Common Stock (subject to the Special Limitations discussed above).

Amendment and Termination

The Board may from time to time alter, amend, suspend or discontinue the provisions of the Purchase Plan provided such changes are effective following the close of a purchase period. Currently, the Board may not, without stockholder approval, (1) materially increase the number of shares issuable under the Purchase Plan, or maximum number of shares which any participant may purchase during a single period except in connection with certain changes in the Company's capital structure, (2) alter the purchase price formula so as to reduce the purchase price, (3) materially increase the benefits accruing to participants or (4) materially modify the requirements for eligibility to participate in the Purchase Plan. Assuming stockholder approval of this Proposal is obtained, the Board will not be able to amend the Purchase Plan to increase the number of shares issuable under the Purchase Plan or modify the requirements for eligibility to participate in the Purchase Plan without first obtaining the approval of the Company's stockholders. The Purchase Plan will terminate upon the earliest of (a) September 30, 2011, (b) the date on which all shares available for issuance thereunder are sold pursuant to exercised purchase rights, (c) the date on which all purchase rights are exercised in connection with change in control, or (d) termination by the Board.

Federal Tax Consequences

The following is a brief summary of the federal income tax aspects of the share purchase rights under the Purchase Plan based upon federal income tax laws in effect on the date of this proxy statement. This summary is not intended to be exhaustive and does not describe foreign, state or local tax consequences.

The Purchase Plan, and the right of participants to make purchases of the Company's Common Stock pursuant to the Purchase Plan, are intended to be eligible for the favorable tax treatment provided by Sections 421 and 423 of the Code. There are no tax deductions available for amounts paid by participants to acquire shares under the Purchase Plan. A participant will realize no income upon the grant of the share purchase rights or upon the purchase of Common Stock under the Purchase Plan, and the Company will not be entitled to any deduction at the time of grant of the rights or purchase of the shares. Taxable income will not be recognized until there is a sale or other disposition of the shares acquired under the Purchase Plan or in the event the participant should die while still owning the purchased shares.

The amount of a participant's tax liability upon disposition of the shares acquired will depend on whether or not the participant satisfies the prescribed holding period as summarized below. If the participant holds the shares purchased for the prescribed holding period of two years from the grant of the share purchase right and one year from the purchase date, then upon disposition of shares the Company will receive no deduction and the participant will recognize:

ordinary income on the lesser of the participant's gain on the sale or the purchase price discount under the Purchase Plan, applied to the fair market value of the shares at the first day of the offering period; and

long-term capital gain (or loss) on the difference between the sale price and the sum of the purchase price and any ordinary income recognized on the disposition.

However, consequences for both the Company and the participant would differ if the participant did not satisfy the prescribed holding period described above. In the event that the shares are sold or disposed of (including by way of gift) before the expiration of the prescribed holding periods, the excess of the fair market value of the shares on the date such shares are purchased over the purchase price of such shares will be treated as ordinary income to the participant. This excess will constitute ordinary income in the year of sale or other disposition even if no gain is realized on the sale or a gratuitous transfer of the shares is made. The balance of any gain will be treated as capital gain and will be treated as long-term capital gain if the shares have been held more than one year. Even if the shares are sold for less than their fair market value on the date the shares are purchased, the same amount of ordinary income is attributed to a participant and a capital loss is recognized equal to the difference between the sales price and the value of the shares on such date of purchase. The Company ordinarily will be allowed a tax deduction at the time and in the amount of the ordinary income recognized by the participant.

If the participant still owns the purchased shares at the time of death, the excess difference of the fair market value of the shares on the date of death over the purchase price of such shares will be treated as ordinary income in the year of death. The Company ordinarily will be allowed a tax deduction at the time and in the amount of the ordinary income recognized by the participant.

Accounting Treatment

Under present accounting principles, the issuance of Common Stock under the Purchase Plan will not result in any charge to the Company's earnings. However, the Company must disclose in pro-forma statements to the Company's financial statements, the impact the purchase rights granted under the Purchase Plan would have on the Company's reported earnings were the value of those purchase rights treated as a compensation expense.

Plan Benefits

No current executive officer or director purchased shares of Common Stock under the Purchase Plan during the period from April 1, 2004 to March 31, 2005 (the most recent purchase date). During the same time period, all employees as a group (721 persons) purchased 48,883 shares of Common Stock under the Purchase Plan with an average weighted purchase price of \$21.33. The Company cannot currently determine the exact number of purchase rights to be granted in the future under the Purchase Plan to its Named Executive Officers (as such term is

defined below under the caption "Executive Compensation"), to all executive officers as a group, to all directors who are not executive officers as a group or to all employees as a group.

Stockholder Approval

The affirmative vote of a majority of the shares of Common Stock present or represented by proxy at the Annual Meeting is required for approval of the amendments to the Purchase Plan.

THE BOARD RECOMMENDS A VOTE FOR THE AMENDMENTS TO THE PURCHASE PLAN.

PROPOSAL THREE

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Company's stockholders are being asked to ratify the appointment of Grant Thornton LLP to serve as the Company's independent auditors for the fiscal year ending March 31, 2006. Stockholder ratification of the appointment of Grant Thornton LLP as the Company's independent auditors is not required by the Company's Bylaws or otherwise. However, the Board is submitting the Audit Committee's appointment of Grant Thornton LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the appointment by an affirmative vote of the holders of a majority of the Common Stock present or represented at the meeting and entitled to vote, the Audit Committee may reconsider whether to retain Grant Thornton LLP as the Company's independent auditors. Even if the appointment is ratified, the Audit Committee in its discretion may direct the appointment of a different independent accounting firm at any time during the year if it determines that such a change would be in the best interest of the Company and its stockholders.

Representatives of Grant Thornton LLP attended or participated by telephone in all meetings of the Audit Committee during fiscal 2005. The Audit Committee pre-approves and reviews audit and permissible non-audit services performed by Grant Thornton LLP as well as the fees charged by Grant Thornton LLP for such services. In its pre-approval and review of permissible non-audit service fees, the Audit Committee considers, among other factors, the possible effect of the performance of such services on the auditors' independence. Under certain de minimis circumstances described in the rules and regulations of the Securities and Exchange Commission (the "SEC"), the Audit Committee may approve permissible non-audit services prior to the completion of the audit in lieu of pre-approving such services. In recent years, the Company has not obtained any non-audit services from Grant Thornton LLP that are prohibited under the rules and regulations of the SEC.

The Company expects that representatives of Grant Thornton LLP will attend the Annual Meeting, will have the opportunity to make a statement if they so desire and will be available to respond to appropriate questions posed by stockholders.

Principal Accountant Fees and Services

Audit Fees. Audit fees include the audit of the Company's annual financial statements, review of financial statements included in the Company's Form 10-Q quarterly reports, and services that are normally provided by Grant Thornton LLP in connection with statutory and regulatory filings or engagements for the relevant fiscal years. Audit fees billed by Grant Thornton LLP for services rendered to the Company in the audit of annual financial statements and the reviews of the financial statements included in the Company's Forms 10-Q were approximately \$262,085 for the 2005 fiscal year and \$136,000 for the 2004 fiscal year.

Audit-Related Fees. Audit-related fees consist of assurance and related services provided by Grant Thornton LLP that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported above under Audit Fees.

Fiscal 2005
 Audit of the financial statements of CorVel Incentives Savings Plan \$ 12,500

Fiscal 2004
 Audit of the financial statements of CorVel Incentives Savings Plan \$ 10,000

Tax Fees. Tax fees consist of professional services rendered by Grant Thornton LLP for tax compliance, tax advice and tax planning. The Company engaged Grant Thornton LLP to perform the following tax services for the fiscal year 2005 and fiscal year 2004:

Fiscal 2005
 Preparation of Forms 5500 and tax consulting services \$ 15,505

Fiscal 2004
 Preparation of Forms 5500 and tax consulting services \$ 12,154

All Other Fees. There were no such services rendered by Grant Thornton LLP during the fiscal year 2005 or fiscal year 2004.

The Audit Committee has determined that the provision of the above non-audit services by Grant Thornton LLP was compatible with their maintenance of accountant independence.

Stockholder Approval

The affirmative vote of a majority of the shares of the Common Stock present or represented by proxy at the Annual Meeting is being sought for ratification of the appointment of Grant Thornton LLP as the Company's independent auditors for the fiscal year ending March 31, 2006.

THE BOARD RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING MARCH 31, 2006.

OTHER MATTERS

Management does not know of any other matters to be brought before the Annual Meeting. If any other matter is properly presented for consideration at the Annual Meeting, it is intended that the proxies will be voted by the persons named therein in accordance with the Board of Directors' recommendation. Discretionary authority with respect to such other matters is granted by the execution of the enclosed proxy.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information known to the Company as of May 31, 2005, with respect to beneficial ownership of Common Stock by (i) each person (or group of affiliated persons) who is known by the Company to own beneficially more than 5% of the outstanding Common Stock, (ii) each director and/or nominee for director, (iii) the Named Executive Officers (named under the heading Executive Compensation below), and (iv) all current directors and executive officers as a group, together with the approximate percentages of outstanding Common Stock beneficially owned by each of them. The following table is based upon information supplied by directors, executive officers and principal stockholders, and Schedules 13D and 13G filed with the SEC. Except as

otherwise noted, the persons named in the following table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to community property laws where applicable.

Name and Address of	Amount of Common Stock Beneficially Owned	Percentage of Common Stock Beneficially Owned (1)
Beneficial Owner Jeffrey J. Michael 10901 Red Circle Drive, Suite 370 Minnentonka, MN 55343	2,963,658(2)	29.8%
Corstar Holdings, Inc. 10901 Red Circle Drive, Suite 370 Minnentonka, MN 55343	2,890,000	29%
FMR Corporation 82 Devonshire Street Boston, MA 02109	1,424,863(3)	14.4%
V. Gordon Clemons 2010 Main Street, Suite 600 Irvine, CA 92614	1,134,679(4)	11.4%
Wellington Management Company, LLP 75 State Street Boston, MA 02109	737,696(5)	7.4%
Kestrel Investment Management Corporation Abbott J. Keller, David J. Steirman 411 Borel Avenue, Suite 403 San Mateo, CA 94402	597,050(6)	6.0%
Babson Capital Management LLP One Memorial Drive Cambridge, MA 02142	577,350(7)	5.8%
Eaton Vance Corp. 255 State Street Boston, MA 02109	552,050(8)	5.6%
Steven J. Hamerslag	68,250(9)	*
R. Judd Jessup	68,050(10)	*
Peter E. Flynn	52,525(11)	*
Richard J. Schweppe	37,170(12)	*
Alan R. Hoops	8,625(13)	*

All current executive officers and directors as a group (7 individuals)	4,338, 926(14)	42.3%
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* Less than 1%

(1) Applicable percentage ownership is based on 9,914,003 shares of Common Stock outstanding as of May 31, 2005, which excludes a total of 6,482,913 shares repurchased by the Company in accordance with the Stock Repurchase Program and held by the Company in its treasury. Any securities not outstanding but which are subject to options exercisable within 60 days of May 31, 2005, are deemed outstanding for the purpose of computing the percentage of outstanding Common Stock beneficially owned by any person holding such options but are not deemed outstanding for the purpose of

computing the
percentage of
Common Stock
beneficially
owned by any
other person.

- (2) Includes 2,890,000 shares owned by Corstar, 39,908 shares owned directly by Mr. Michael, a director of Corstar and the Company, and 33,750 shares subject to options held by Mr. Michael that are exercisable within 60 days of May 31, 2005. Mr. Michael is the President, Chief Executive Officer and a director of Corstar. In addition, Mr. Michael is the trustee of the Michael Family Grantor Trust (formerly Michael Acquisition Corporation Trust), which is the sole shareholder of Corstar. Based on the foregoing, Mr. Michael may be deemed to have beneficial ownership of the shares of Common Stock of the Company held by Corstar.

Mr. Michael disclaims such beneficial ownership except to the extent of any indirect pecuniary interest therein.

(3) According to the Schedule 13G of Fidelity Management & Research Company (Fidelity) dated February 14, 2005, Fidelity is a wholly-owned subsidiary of FMR Corp.. Edward C. Johnson, FMR Corp., through its control of Fidelity, and the funds each have sole power to dispose the shares, while power to vote the shares resides in the Fund s Board of Trustees.

(4) Includes 1,104,679 shares owned by Mr. Clemons directly, and 30,000 shares subject to options that are exercisable within 60 days of May 31, 2005.

- (5) According to Schedule 13G of Wellington Management Company (Wellington) dated February 14, 2005, Wellington shares investment power, along with its clients, with respect to the shares.
- (6) According to the Schedule 13G of Kestrel Investment Management Corporation (Kestrel) dated February 14, 2005, Abbott J. Keller and David J. Steirman are the sole shareholders of Kestrel, with sole investment power with respect to the shares.
- (7) According to Schedule 13G of Babson Capital Management, LLP (Babson) dated January 20, 2005, Babson, in its capacity as investment advisor, shares investment

power along
with its clients
with respect to
the shares.

- (8) According to
Schedule 13G
of Eaton Vance
Corp. (Eaton)
dated
February 14,
2005, Eaton has
sole investment
power with
respect to the
shares.
- (9) Includes 43,000
shares owned
directly by
Mr. Hamerslag
and 24,750
shares subject to
options that are
exercisable
within 60 days
of May 31,
2004.
- (10) Includes 41,900
shares owned
directly by
Mr. Jessup and
26,850 shares
subject to
options that are
exercisable
within 60 days
of May 31,
2004.
- (11) Includes 14,900
shares owned
directly by
Mr. Flynn,
14,000 shares
owned by
Mr. Flynn s
spouse
(Mr. Flynn
disclaims

beneficial ownership of such shares, except to the extent of any applicable community property laws.) and 900 shares owned indirectly by Mr. Flynn as custodian for his children, and 43,594 shares subject to options that are exercisable within 60 days of May 31, 2005.

(12) Includes 22,791 shares owned directly by Mr. Schweppe and 14,379 shares subject to options that are exercisable within 60 days of May 31, 2004.

(13) Consists of 8,625 shares subject to options that are exercisable within 60 days of May 31, 2005.

(14) Includes the information set forth in notes 2, 4, 9, 10, 11, 12 and 13 above.

Equity Compensation Plan Information

The following table provides information as of March 31, 2005, with respect to the shares of Common Stock of the Company that may be issued under the Company's existing equity compensation plans. The Company has not assumed

any equity compensation plans in connection with any mergers or acquisitions.

Plan Category	A	B	C
	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity Compensation Plans Approved by Shareholders (1)	969,887(2)	\$ 25.29	667,134(3)
Equity Compensation Plans Not Approved by Shareholders	0	\$ 0	0
Total	969,887	\$ 25.29	667,134

(1) Consists solely of the 1988 Executive Stock Option Plan and the 1991 Employee Stock Purchase Plan.

(2) Excludes purchase rights accruing under the Company's 1991 Employee Stock Purchase Plan which has a stockholder approved reserve of 750,000 shares. Under the Purchase Plan, each eligible employee may purchase up to 1,500 shares of Common Stock of the Company at semi-annual intervals on the last business day of March

and September each year at a purchase price per share equal to 85% of the lower of (i) the fair market value of a share of Common Stock of the Company on the date on which the purchase right is granted or (ii) the fair market value of a share of Common Stock of the Company on the date the purchase right is exercised.

- (3) Includes shares available for future issuance under the 1991 Employee Stock Purchase Plan. As of March 31, 2005, an aggregate of 34,267 shares of Common Stock of the Company were available for issuance under the 1991 Employee Stock Purchase Plan.

Share issuances under the 1988 Executive Stock Option Plan will not reduce or otherwise affect the number of shares of Common Stock of the Company available for issuance under the 1991 Employee Stock Purchase Plan, and share issuances under 1991 Employee Stock Purchase Plan will not reduce or otherwise affect the number of shares of Common Stock of the Company available for issuance under the 1988 Executive Stock Option Plan.

DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The following table set forth certain information regarding the directors and executive officers of the Company as of May 31, 2005:

Name	Age	Position
V. Gordon Clemons	61	Chairman of the Board, Chief Executive Officer and President
Steven J. Hamerslag	48	Director
Alan R. Hoops	57	Director
R. Judd Jessup	57	Director
Jeffrey J. Michael	48	Director
Richard J. Schweppe	50	Chief Financial Officer and Secretary

The following is a brief description of the capacities in which each of the Company's directors and executive officers has served during the past five years. The biographies of Messrs. Clemons, Hamerslag, Hoops, Jessup and Michael appear earlier in this Proxy Statement and are incorporated here by reference. See Proposal One: Election of Directors. Mr. Schweppe has been the Company's Chief Financial Officer since April 1991 and Secretary since June 1995. From March 1988 to April 1991, Mr. Schweppe was the Director of Finance for the Company. From May 1983 to February 1988, Mr. Schweppe was the Manager, Technical Accounting for Caremark, Inc.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that, during fiscal year 2005, all transactions required to be reported by its officers, directors and greater than 10% beneficial owners were reported in a timely manner, except as described below.

Compensation Committee Interlocks and Insider Participation

Messrs. Hamerslag, Hoops and Michael served as members of the Compensation Committee during fiscal year 2005. Mr. Michael is the President and Chief Executive Officer of Corstar Holdings, Inc., a beneficial owner of more than 10% of the outstanding Common Stock of the Company. No member of the Compensation Committee was, during fiscal 2005, an employee or officer of the Company or was formerly an officer of the Company.

During fiscal 2005, no current executive officer of the Company served as a member of the board of directors or compensation committee of any other entity that has or had one or more executive officers serving as a member of the Company's Board or Compensation Committee.

EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

The following table sets forth the compensation earned by the Company's Chief Executive Officer and each of the other executive officers, whose total salary and bonus for fiscal year 2005 exceeded \$100,000, for the three fiscal years ended March 31, 2005, 2004 and 2003. The listed individuals shall be referred to in this Proxy Statement as the Named Executive Officers. No other executive officers who would otherwise have been included in such table on the basis of salary and bonus earned for the 2005 fiscal year has been excluded by reason of termination of employment or change in executive status during fiscal year 2005.

Summary Compensation Table

Name of Individual and Principal Position	Annual Compensation		Long-Term Compensation	
	Fiscal Year	Salary(1)	Securities Underlying	All Other