

CORVEL CORP  
Form DEF 14A  
July 11, 2008

**Table of Contents**

**SCHEDULE 14A  
(Rule 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11(c) or Section 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):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

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

(3) Filing party:

(4) Date filed:

---

**Table of Contents**

July 11, 2008

Dear CorVel Stockholder:

We are pleased to invite you to our 2008 Annual Meeting, which will be held at CorVel's principal executive offices at 2010 Main Street, Suite 600, Irvine, California 92614, on Thursday, August 14, 2008, 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 2008 Annual Meeting are addressed in the enclosed Notice of Annual Meeting of Stockholders and Proxy Statement.

Your vote is important. Whether or not you plan to attend the 2008 Annual Meeting, please complete and mail the enclosed proxy card to ensure that your shares will be represented at the 2008 Annual Meeting. A postage pre-paid envelope has been provided for your convenience.

We look forward to seeing you at our 2008 Annual Meeting.

Sincerely,

/s/ V. GORDON CLEMONS

V. Gordon Clemons,  
Chairman of the Board

---

**TABLE OF CONTENTS**

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

PROXY STATEMENT

MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING

PROPOSAL TWO

PROPOSAL THREE

OTHER MATTERS

AUDIT COMMITTEE REPORT

EXECUTIVE OFFICERS OF CORVEL

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND

RELATED STOCKHOLDER MATTERS

CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

ANNUAL REPORT ON FORM 10-K AND STOCKHOLDER PROPOSALS FOR THE 2009 ANNUAL

MEETING

COSTS OF SOLICITATION

APPENDIX A

---

Table of Contents

**CorVel Corporation**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held August 14, 2008**

To the Stockholders of CorVel Corporation:

Notice is hereby given that the 2008 Annual Meeting of Stockholders (the Annual Meeting ) of CorVel Corporation, a Delaware corporation will be held at the our principal executive offices, at 2010 Main Street, Suite 600, Irvine, California 92614, on Thursday, August 14, 2008, 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 the six directors named in the attached proxy statement, each to serve until the 2009 annual meeting of stockholders or until his or her successor has been duly elected and qualified;
2. To approve an amendment to the CorVel Corporation Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) to reduce the number of shares of common stock underlying options to be granted under the automatic option grant program from 11,250 to 7,500 shares for initial automatic option grants to be awarded to a director upon first joining the Board and from 4,500 to 3,000 shares for annual automatic option grants to be awarded to directors on the date of each annual meeting of stockholders;
3. To ratify the appointment of Haskell & White LLP as our independent auditors for the fiscal year ending March 31, 2009; 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 June 16, 2008 are entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at our principal executive offices and at our 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 Annual Meeting by promptly completing, signing, dating and returning the enclosed proxy card in the enclosed, self-addressed, postage pre-paid envelope provided for your convenience, or submitting your proxy by Internet (if your shares are registered in the name of a bank or brokerage firm and you are eligible to vote your shares in such a manner). Should you receive more than one proxy card because your shares are registered in different names and addresses, each proxy card should be signed and returned to assure that all your shares will be voted.

**The holders of a majority of the outstanding shares of our Common Stock 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 us of adjourning the Annual Meeting until a later time and re-soliciting proxies.**

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

By order of the Board of Directors,

/s/ RICHARD J. SCHWEPPE

RICHARD J. SCHWEPPE

Secretary

Irvine, California

July 11, 2008



Table of Contents

**CorVel Corporation**

**PROXY STATEMENT**

Proxies are being solicited on behalf of our Board of Directors (the Board) for use at the 2008 Annual Meeting of stockholders, which will be held at our principal executive offices located at 2010 Main Street, Suite 600, Irvine, California 92614, on Thursday, August 14, 2008, 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 June 16, 2008 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 our principal executive offices and at the Annual Meeting.

On June 16, 2008, the record date (the Record Date) for determination of stockholders entitled to notice of and to vote at the Annual Meeting, there were 13,754,570 shares of our Common Stock outstanding and approximately 1,081 holders of record according to information provided by our transfer agent. No shares of our preferred stock were outstanding as of June 16, 2008. Each stockholder is entitled to one vote on all matters brought before the Annual Meeting for each share of our Common Stock 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 our Common Stock entitled to vote will constitute a quorum for the transaction of business. In the election of directors under Proposal One, the six nominees receiving the highest number of affirmative votes shall be elected. The affirmative vote of the holders of our Common Stock representing a majority of the voting power present or represented by proxy at the Annual Meeting and entitled to vote is required for approval of Proposal Two and is being sought for approval of Proposal Three.

All votes will be tabulated by our inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes (*i.e.*, shares held by a broker or nominee that are represented at the Annual Meeting, but with respect to which such broker or nominee is not instructed to vote on a particular proposal and does not have discretionary voting power). 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, will not have the effect of negative votes and will not affect the outcome of the election of directors. With regard to Proposals Two and Three, abstentions will be counted towards the tabulations of votes cast on such proposal 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 proposal has been approved and will not have the effect of negative votes.

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 our Secretary at our 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.

If your shares are registered in the name of a bank or brokerage firm, you may be eligible to vote your shares electronically through the Internet. A large number of banks and brokerage firms provide eligible stockholders, who receive a paper copy of the Annual Report and Proxy Statement, the opportunity to vote in this manner. If your bank



or brokerage firm allows for this, your voting form will provide instructions for such alternative method of voting. If your voting form does not reference Internet information, please complete and return the paper proxy card in the envelope provided.

This Proxy Statement, the accompanying Notice, the enclosed proxy card and our Annual Report on Form 10-K for the fiscal year ended March 31, 2008, were mailed on or about July 11, 2008, to stockholders of record on the Record Date.

Our principal executive offices are located at 2010 Main Street, Suite 600, Irvine, California 92614. Our telephone number is (949) 851-1473.

**Table of Contents**

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

Six individuals have been nominated to serve as our directors. Our stockholders are being asked to elect these nominees to the Board at the Annual Meeting. Our Nomination and Governance Committee selected and recommended, and the Board, including its independent directors, approved the nomination of each of the six individuals listed below for election to serve for a one-year term ending on the date of our next annual meeting of stockholders or until his or her successor has been duly elected and qualified. The term may be shorter if such individual resigns, becomes disqualified or disabled, or is otherwise removed. If these nominees are elected, the Board will consist of six persons and there will be one vacancy on the Board. The Board may fill such vacancy at any time during the year.

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 or her 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 may exercise discretionary authority to vote for a substitute person selected and recommended by our Nomination and Governance Committee and nominated by the Board.

**Director Nominees for Term Ending Upon the 2009 Annual Meeting of Stockholders**

The names and certain information, as of May 31, 2008, about the nominees for director are set forth below:

<b>Name</b>	<b>Age</b>	<b>Position</b>
V. Gordon Clemons	64	Chairman of the Board
Steven J. Hamerslag (1) (2) (3)	51	Director
Alan R. Hoops (1) (2)	60	Director
R. Judd Jessup (1)	60	Director
Jean H. Macino	65	Director
Jeffrey J. Michael (2) (3)	51	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nomination and Governance Committee.

Mr. Clemons has served as our Chairman of the Board since April 1991. He served as our Chief Executive Officer from January 1988 until August 2007, when Daniel Starck was appointed to that office, and as our President from January 1988 until May 2006, when Mr. Starck was appointed to that office. 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 Caremark 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 31 years of experience in the healthcare and insurance industries.

Mr. Hamerslag has served as one of our directors since May 1991. Mr. Hamerslag has been Managing Partner of TVC Capital, a venture capital firm, since April 2006, and Managing Director of Titan Investment Partners, also a venture

capital firm, since November 2002. Mr. Hamerslag served as the President and Chief Executive Officer of J2Global Communications, a publicly held 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 one of our directors since May 2003. Mr. Hoops has been Chairman of the Board and Chief Executive Officer of CareMore California Health Plan, a health maintenance organization, since March 2006.

Mr. Hoops was Chairman of Benu, Inc., a regional benefits administration/marketing company, from 2000 to March 2006, and Chairman of Enwisen, Inc., a human resources services software company, from 2001 to March 2006.

Mr. Hoops was Chief Executive Officer and a Director of Pacificare Health Systems, Inc., a national health consumer services company, from 1993 to 2000. Mr. Hoops has 35 years of experience in the healthcare and managed care industries.

Mr. Jessup has served as one of our directors since August 1997. Mr. Jessup was Chief Executive Officer of U.S. LABS, a national laboratory which provides cancer diagnostic and genetic testing services, from 2002 to 2005.

Mr. Jessup was President of the HMO Division of FHP International Corporation ( FHP ), a diversified health care services company, from 1994 to 1996. From 1987 to 1994, Mr. Jessup was President of TakeCare, Inc., a publicly held HMO operating in California, Colorado, Illinois and Ohio, until it was acquired by FHP.

Mr. Jessup has 33 years of experience in the healthcare and managed care industries. Mr. Jessup has been a director of Superior Vision Services, a national managed vision care plan, since December 2007, Accentcare since October 2005, a director of Xifin, Inc., a laboratory billing systems company, since January 2006, and a director of NovaMed, Inc. since August 1998.

## **Table of Contents**

Ms. Macino has served as one of our directors since February 2008. Ms. Macino was elected Managing Director of Marsh and McLennan Companies, the world's leading insurance broker and strategic risk advisor, in 1980, and appointed Office Head of the Newport Beach office of Marsh, Inc. in 1995 and continued to serve in that role until 2005. Ms. Macino has served on the Board of Governors of Chapman University for the past ten years and currently serves as Chairman of Governorship Committee. Ms. Macino has 35 years of experience in the insurance brokerage industry.

Mr. Michael has served as one of our directors since September 1990. Mr. Michael has been the President, Chief Executive Officer and a Director of Corstar Holdings, Inc., one of our significant stockholders and a holding company owning equity interests in CorVel and an independent provider of data, voice, and video services to multiple dwelling units, since March 1996.

There are no family relationships among any of our directors or executive officers.

### **Corporate Governance, Board Composition and Board Committees**

#### *Independent Directors*

The Board has determined that each of our current directors other than Mr. Clemons qualifies as an independent director in accordance with the published listing requirements of The Nasdaq Stock Market LLC ( Nasdaq ). The Nasdaq independence definition includes a series of objective tests, such as that the director is not also one of our employees and has not engaged in various types of business dealings with us. 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, our directors reviewed and discussed information provided by us and our directors with regard to each director's business and personal activities as they may relate to us and our 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 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 our web site at <http://www.corvel.com> under the Investor Relations section. The inclusion of our web site address in this Proxy Statement does not include or incorporate by reference the information on our web site into this Proxy Statement or our Annual Report on Form 10-K.

#### *Audit Committee*

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

Our 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 our employees of concerns regarding accounting or auditing matters. In addition, our audit committee is directly responsible for the appointment, retention, compensation and oversight of the work of our independent auditors, including approving services and fee arrangements. In accordance with the audit committee's charter and policies regarding transactions with related persons, all related person transactions are approved or ratified by our audit committee. Please see the information set forth under the heading Policies and Procedures for Related Person Transactions in this Proxy Statement for additional details about our policies regarding related person transactions.

The current members of our audit committee are Messrs. Hamerslag, Hoops and Jessup. The audit committee held two meetings in person, held two meetings by telephonic conference calls and acted by unanimous written consent one time during fiscal 2008.

In addition to qualifying as independent under the Nasdaq rules described above, each member of our audit committee can read and understand fundamental financial statements, and each member currently qualifies as independent under special standards

**Table of Contents**

established by the SEC for members of audit committees. Our 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 our 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 our audit committee or Board.

*Compensation Committee*

The compensation committee of the Board reviews and approves our general compensation policies and all forms of compensation to be provided to our executive officers and directors, including, among other things, annual salaries, bonuses, and stock option and other incentive compensation arrangements. In addition, our compensation committee administers the CorVel Corporation 1991 Employee Stock Purchase Plan and the CorVel Corporation Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan), including reviewing and granting stock options. Our compensation committee also reviews and approves various other issues related to our compensation policies and matters. The current members of our compensation committee are Messrs. Hamerslag, Hoops and Michael. The compensation committee held one meeting and acted by unanimous written consent seven times during fiscal 2008.

*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 our 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 our 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 our business, ability to think and act independently and with sound judgment, and ability to serve us and our stockholders' long-term interests. These factors, and others as considered useful by our 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 our 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. Jean Macino, who was appointed to the Board in February 2008 to fill one of the two vacancies on the Board, was identified by the Company's insurance brokers for consideration by the nomination and governance committee. Each of the other 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 nomination and governance committee has not received any nominations from any stockholders in connection with this Annual Meeting. The current members of our nomination and governance committee are Messrs. Hamerslag and Michael. The nomination and governance committee held one meeting during fiscal 2008.

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 our capital stock entitled to vote for the election of directors, provided such proposal is in accordance with the procedures set forth in Article II, Section 12 of our Bylaws and in the charter of the nomination and governance committee. Nominations by eligible stockholders

must be preceded by notification in writing addressed to the Chairman of the nomination and governance committee, care of our Secretary, at 2010 Main Street, Suite 600, Irvine, California 92614, not later than (i) with respect to an election to be held at an annual meeting of stockholders, ninety (90) days prior to the anniversary date of the immediately preceding annual meeting, or (ii) with respect to the election to be held at a special meeting of stockholders for the election of directors, the close of business on the tenth day following the date on which notice of such meeting is first given to stockholders. Such notification shall contain the written consent of each proposed nominee to serve as a director if 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

**Table of Contents**

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 and address of the nominee; (b) the name and address of the stockholder making the nomination; (c) a representation that the nominating stockholder is a stockholder of record of our stock entitled to vote at the next annual meeting and intends to appear in person or by proxy at such meeting to nominate the person specified in the notice; (d) the nominee's qualifications for membership on the Board of Directors; (e) all of the information that would be required in a proxy statement soliciting proxies for the election of the nominee as a director pursuant to the rules and regulations of the United States Securities and Exchange Commission; (f) a description of all direct or indirect arrangements or understandings between the nominating stockholder and the nominee and any other person or persons (naming such person or persons) pursuant to whose request the nomination is being made by the stockholder; (g) all other companies to which the nominee is being recommended as a nominee for director; and (h) a signed consent of the nominee to cooperate with reasonable background checks and personal interviews, and to serve as one of our directors, if elected.

All such recommendations will be brought to the attention of our nomination and governance committee. Candidates proposed by stockholders will be evaluated by our nomination and governance committee using the same criteria as for all other candidates.

*Board and Committee Meetings*

The Board held four meetings in person, held four meetings by telephonic conference calls and acted by unanimous written consent three times during fiscal 2008. Other than Ms. Macino, 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 2008. Although we do not have a formal policy regarding attendance by members of the Board at our annual meetings of stockholders, directors are encouraged and expected to attend each of our annual meetings of stockholders in addition to each meeting of the Board and of the committees on which he or she serves, except where the failure to attend is due to unavoidable circumstances or conflicts. All of our directors, other than Ms. Macino, attended our 2007 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 our employees, officers and directors. The full text of our code of ethics and business conduct is posted on our web site at <http://www.corvel.com> under the Investor Relations section. We intend to disclose future amendments to certain provisions of our code of ethics and business conduct, or waivers of such provisions, applicable to our directors and executive officers, at the same location on our web site identified above. The inclusion of our web site address in this proxy does not include or incorporate by reference the information on our web site into this proxy or our 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 our Secretary at 2010 Main Street, Suite 600, Irvine, CA 92614. This centralized process assists 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. Our Secretary, with the assistance of our Director of Legal Services, is 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 our independent directors upon their general request to view such communications. There were no changes in this process in fiscal 2008.

**Stockholder Approval**

Directors are elected by a plurality of the votes present or represented by proxy at the Annual Meeting and entitled to vote. The six nominees receiving the highest number of affirmative votes cast at the Annual Meeting will be our elected directors.



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

5

---

**Table of Contents**

**PROPOSAL TWO  
APPROVAL OF AN AMENDMENT TO THE CORVEL CORPORATION RESTATED OMNIBUS  
INCENTIVE PLAN  
(FORMERLY THE RESTATED 1988 EXECUTIVE STOCK OPTION PLAN) TO REDUCE THE NUMBER  
OF  
SHARES OF COMMON STOCK UNDERLYING OPTIONS TO BE GRANTED UNDER THE  
AUTOMATIC OPTION  
GRANT PROGRAM FROM 11,250 TO 7,500 SHARES FOR INITIAL AUTOMATIC OPTION GRANTS TO  
BE  
AWARDED TO A DIRECTOR UPON FIRST JOINING THE BOARD, AND FROM 4,500 TO 3,000 SHARES  
FOR  
ANNUAL AUTOMATIC OPTION GRANTS TO BE AWARDED TO DIRECTORS ON THE DATE OF  
EACH  
ANNUAL MEETING OF STOCKHOLDERS**

**General**

Stockholders are being asked to approve an amendment to the CorVel Corporation Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) (the Omnibus Plan ) to reduce the number of shares of Common Stock underlying options to be granted under the automatic option grant program from 11,250 to 7,500 shares for initial automatic option grants to be awarded to a director upon first joining the Board, and from 4,500 to 3,000 shares for annual automatic option grants to be awarded to directors on the date of each annual meeting of stockholders. Currently, under the Automatic Option Grant Program of the Omnibus Plan, when an individual who has not been in the prior employ of the Company first becomes a non-employee Board member, whether through election by the Company s stockholders or appointment by the Board, he or she receives an automatic option grant for 11,250 shares of Common Stock. In addition, on the date of each annual stockholders meeting, each individual who has served as a non-employee Board member for at least six months prior to the date of such stockholder meeting, whether or not he or she has been in the prior employ of the Company, is automatically granted a stock option to purchase 4,500 shares of Common Stock. The number and/or class of securities for which automatic option grants are to be subsequently made to eligible directors under the Automatic Option Grant Program is adjusted in the event any change is made to the Common Stock issuable under the Omnibus Plan by reason of any stock dividend, recapitalization, stock split, reverse stock split, combination of shares, exchange of shares, reorganization, merger, consolidation, split-up, spin-off, or other change affecting the outstanding Common Stock as a class without the Company s receipt of consideration.

If this Proposal Two is approved by stockholders, when an individual who has not been in the prior employ of the Company first becomes a non-employee Board member, whether through election by the Company s stockholders or appointment by the Board, he or she will receive an automatic option grant for 7,500 shares of Common Stock. In addition, on the date of each annual stockholders meeting, each individual who has served as a non-employee Board member for at least six months prior to the date of such stockholder meeting, whether or not he or she has been in the prior employ of the Company, will automatically be granted a stock option to purchase 3,000 shares of Common Stock. The number and/or class of securities for which automatic option grants are to be subsequently made to eligible directors under the Automatic Option Grant Program will be adjusted in the event any change is made to the Common Stock issuable under the Omnibus Plan by reason of any stock dividend, recapitalization, stock split, reverse stock split, combination of shares, exchange of shares, reorganization, merger, consolidation, split-up, spin-off, stock repurchase, or other change affecting the outstanding Common Stock as a class without the Company s receipt of consideration.

The Board believes it necessary to make such a change to the Omnibus Plan in order to reflect the impact of stock repurchases. The Omnibus Plan was initially adopted by the Board on August 1, 1988 and approved by the Company s sole stockholder on the same date. It has been amended and restated on several occasions. The amendment to the Omnibus Plan for which stockholder approval is sought under this Proposal Two was adopted by the Board on May 6, 2008. As of May 31, 2008, there were options outstanding under the Omnibus Plan to purchase 1,019,147 shares of

Common Stock, an aggregate of 7,502,816 shares of Common Stock had been issued pursuant to the Omnibus Plan, and an aggregate of 1,160,537 shares remained available for future issuance pursuant to the terms of the Omnibus Plan.

Under applicable Nasdaq Stock Market rules, the Company is required to obtain stockholder approval of the amendment to the Omnibus Plan. The following is a summary of the principal features of the Omnibus Plan, including the amendment which will become effective upon stockholder approval of this Proposal Two. This summary, however, does not purport to be a complete description of all the provisions of the Omnibus Plan and is qualified in its entirety by reference to the Omnibus Plan. A copy of the Omnibus Plan document as proposed to be amended may be found at Appendix B at the end of this proxy statement. Any stockholder who wishes to obtain an additional copy of the actual plan document may do so by written request to the Corporate Secretary at the Company's executive offices at 2010 Main Street, Suite 600, Irvine, California 92614.

**Table of Contents**

**Structure of the Omnibus Plan**

The Omnibus Plan is divided into three separate components: the Discretionary Option Grant Program, the Automatic Option Grant Program and the Other Equity Based Awards Program. Under the Discretionary Option Grant Program and the Other Equity Based Awards Program, options and other equity based awards may be issued to employees, officers, directors, consultants and advisors of the Company (or its parent or subsidiary companies). Under the Automatic Option Grant Program, only non-employee Board members will receive automatic option grants. The Discretionary Option Grant Program and the Other Equity Based Awards Program are administered by the Compensation Committee of the Board (the Committee). The Committee has complete discretion (subject to the provisions of the Omnibus Plan) to authorize option grants and other equity based awards and to determine the terms of these options and other equity based awards under the Omnibus Plan. However, the Board may at any time appoint a secondary committee of two or more Board members to have separate but concurrent authority with the Committee to make option grants and other equity based awards to individuals other than executive officers and non-employee Board members, and only in a manner that would comply with the requirements of Section 162(m) of the Code. The committee administering the Omnibus Plan will have full power and authority to determine when and to whom awards will be granted, and the type, amount, form of payment and other terms and conditions of each award, consistent with the provisions of the Omnibus Plan. Subject to the provisions of the Omnibus Plan, the committee administering the Omnibus Plan may change the terms and conditions, or accelerate the exercisability, of an outstanding award. The committee administering the Omnibus Plan has authority to interpret the Omnibus Plan, and establish rules and regulations for the administration of the Omnibus Plan. In addition, the Board at any time may exercise the powers of the committee administering the Omnibus Plan.

Administration of the Automatic Option Grant Program is self-executing in accordance with the terms of the Omnibus Plan. Neither the Board nor the Compensation Committee has discretionary authority with respect to that program.

**Purpose of the Omnibus Plan**

The Omnibus Plan is designed to serve as a comprehensive equity incentive program to attract and retain the services of individuals essential to the Company's long-term growth and success, and to encourage such individuals to put forth maximum efforts for the success of the Company's business. Accordingly, the Company's officers and other employees, non-employee directors and other consultants and advisors will have the opportunity to acquire a meaningful equity interest, or otherwise increase their equity interest, in the Company through their participation in the Omnibus Plan, thereby aligning the interests of such individuals with the Company's stockholders.

**Shares Subject to the Omnibus Plan**

The total number of shares of Common Stock issuable under all equity based awards over the term of the Omnibus Plan may not exceed 9,682,500 shares. All such shares will be made available either from authorized but unissued Common Stock or from Common Stock reacquired by the Company.

From and after January 1, 1994 until June 30, 2006, in no event could any one individual participating in the Omnibus Plan be granted stock options and/or stock appreciation rights for more than 1,600,000 shares of Common Stock in the aggregate during such period. For purposes of such limitation, any stock options or stock appreciation rights granted prior to January 1, 1994 are not be taken into account. After June 30, 2006, for purposes of Section 162(m) of the Code, no award recipient may be granted (i) options or stock appreciation rights with respect to more than 500,000 shares of Common Stock in the aggregate within any fiscal year or (ii) qualified performance based awards which could result in such person receiving more than \$1,500,000 in cash or the equivalent fair market value of shares of Common Stock determined at the date of grant for each full or partial fiscal year contained in the performance period of a particular qualified performance based award, subject to certain adjustments as described in more detail below under the heading Performance Awards.

Shares subject to any outstanding options or other equity based awards under the Omnibus Plan which expire or otherwise terminate prior to exercise will be available for subsequent issuance. Unvested shares issued under the Omnibus Plan that the Company subsequently purchases, at the option exercise or direct issue price paid per share, pursuant to the Company's purchase rights under the Omnibus Plan will be added back to the number of shares reserved for issuance under the Omnibus Plan and will accordingly be available for subsequent issuance. However, any shares subject to tandem stock appreciation rights that were exercised under the Omnibus Plan will not be

available for reissuance.

## **Table of Contents**

In the event any change is made to the outstanding shares of Common Stock by reason of any recapitalization, stock dividend, stock split, combination of shares, exchange of shares or other change in corporate structure effected without the Company's receipt of consideration, appropriate adjustments will be made to the class and number of securities issuable (in the aggregate and to each participant) under the Omnibus Plan and to each outstanding option and other equity based award.

### **Eligibility**

Officers, employees, consultants, advisors, and Board members in the service of the Company or any parent or subsidiary corporation are eligible to participate in the Discretionary Option Grant Program and the Other Equity Based Awards Program, provided that only non-Committee Board members are eligible to participate in the Discretionary Option Grant Program. Only non-employee Board members are eligible to participate in the Automatic Option Grant Program. Awards under the Omnibus Plan may only be transferred by will or by the laws of descent and distribution, except that options under the Omnibus Plan may also be transferred without consideration to a family member pursuant to the General Instructions to form S-8 under the Securities Act of 1933.

As of May 31, 2008, approximately 220 employees, two consultants, three executive officers and five non-employee Board members were eligible to participate in the Discretionary Option Grant Program and the Other Equity Based Awards Program. Five non-employee Board members are eligible to participate in the Automatic Option Grant Program.

### **Valuation**

For purposes of establishing the option exercise price or the price for other equity based awards, and for all other valuation purposes under the Omnibus Plan, the fair market value per share of Common Stock on any relevant date under the Omnibus Plan will be the closing selling price per share on such date, as quoted on the Nasdaq National Market and published in The Wall Street Journal. If there is no reported closing selling price for such date, then the closing selling price for the last previous date for which such quotation exists will be used as its fair market value. The closing selling price per share of the Common Stock as quoted on the Nasdaq National Market on May 30, 2008 was \$36.01 per share.

### **Discretionary Option Grant Program**

The Committee has complete discretion under the Discretionary Option Grant Program to determine which eligible individuals are to receive option grants, the time or times when those grants are to be made, the number of shares subject to each such grant, the vesting schedule (if any) to be in effect for the option grant and the maximum term for which any granted option is to remain outstanding. Unless otherwise provided in a particular award agreement, the options granted under the Discretionary Option Grant Program generally will have the following terms and conditions: *Price and Exercisability*. The exercise price per share for options issued under the Discretionary Option Grant Program may not be less than the fair market value of the Common Stock on the grant date, and no option may be outstanding for more than ten years. The shares subject to each option will generally vest in one or more installments over a specified period of service measured from the grant date.

Upon cessation of service, the optionee will have a limited period of time in which to exercise any outstanding option for the number of shares which were vested at the time service terminated. The Committee will have complete discretion to extend the period following the optionee's cessation of service during which his or her outstanding options may be exercised and/or accelerate the exercisability or vesting of such options in whole or in part. Such discretion may be exercised at any time while the options remain outstanding, whether before or after the optionee's cessation of service.

*Acceleration of Options*. In the event of an acquisition of the Company by merger or asset sale (Corporate Transaction), each option outstanding under the Discretionary Option Grant Program at the time will automatically become exercisable as to all of the option shares immediately prior to the effective date of the Corporate Transaction. However, no acceleration will occur if and to the extent: (i) such option is either to be assumed by the successor corporation or its parent or replaced by a comparable option to purchase shares of the capital stock of the successor corporation or its parent, (ii) such option is to be replaced with a cash incentive program of the successor corporation designed to preserve the difference between the exercise price and the fair market value of the Common Stock at the time of the Corporate Transaction and incorporating the same vesting schedule applicable to the option or

(iii) acceleration of such option is subject to other limitations imposed by the Committee at the time of grant. Upon the consummation of any Corporate Transaction, all outstanding options will, to the extent not previously exercised by the optionees or assumed by the successor corporation (or its parent company), terminate and cease to be outstanding.

**Table of Contents**

The Committee will have the discretion to provide for the automatic acceleration of one or more assumed or replaced options which are not otherwise accelerated in connection with the Corporate Transaction, or to provide for automatic vesting of the optionee's interest in any cash incentive program implemented in replacement of his or her options under the Discretionary Option Grant Program, should the optionee's employment with the successor entity terminate within a designated period following the Corporate Transaction.

The acceleration of options in the event of a Corporate Transaction may be seen as an anti-take-over provision and may have the effect of discouraging a merger proposal, a take-over attempt or other efforts to gain control of the Company.

*Tandem Stock Appreciation Rights.* At the Committee's discretion, options granted under the Discretionary Option Grant Program may be granted with tandem stock appreciation rights. Two types of stock appreciation rights are authorized for issuance: (i) tandem stock appreciation rights which require the option holder to elect between the exercise of the underlying option for shares of Common Stock and the surrender of such option for a share distribution and (ii) prior to July 1, 2006, limited stock appreciation rights which are automatically exercised upon the occurrence of a hostile take-over of the Company.

Tandem stock appreciation rights provide the holders with the right to surrender their option for an appreciation distribution from the Company equal in amount to the excess of (i) the fair market value (on the date of surrender) of the shares of Common Stock in which the optionee is at the time vested under the surrendered option over (ii) the aggregate exercise price payable for such shares. Such appreciation distribution shall be made in shares of Common Stock valued at fair market value on the date of surrender.

Prior to July 1, 2006, one or more officers of the Company subject to the short-swing profit restrictions of the Federal securities laws were, in the Committee's discretion, eligible to be granted a limited stock appreciation right as part of any stock option grant made to such officers. Any option with such a limited stock appreciation right will automatically be canceled upon the occurrence of a hostile take-over, to the extent the option is at such time exercisable for vested shares. In return, the optionee will be entitled to a cash distribution from the Company in an amount equal to the excess of (i) the take-over price per share over (ii) the aggregate exercise price payable for such shares.

Outstanding options granted to executive officers under the Omnibus Plan prior to June 15, 1992 provide such individuals with a different form of limited stock appreciation right in the event of a hostile take-over of the Company. Under this latter right, if the optionee is an officer of the Company at the time of such a hostile take-over, such optionee will have a thirty-day period in which to surrender the underlying option in return for a cash distribution from the Company equal to the excess for the take-over price of the shares subject to the surrendered option over the exercise price payable for such shares.

**Automatic Option Grant Program**

Currently, under the Automatic Option Grant Program of the Omnibus Plan, when an individual who has not been in the prior employ of the Company first becomes a non-employee Board member, whether through election by the Company's stockholders or appointment by the Board, he or she receives an automatic option grant for 11,250 shares of Common Stock. In addition, on the date of each annual stockholders meeting, each individual who has served as a non-employee Board member for at least six months prior to the date of such stockholder meeting, whether or not he or she has been in the prior employ of the Company, is automatically granted a stock option to purchase 4,500 shares of Common Stock. The number and/or class of securities for which automatic option grants are to be subsequently made to eligible directors under the Automatic Option Grant Program is adjusted in the event any change is made to the Common Stock issuable under the Omnibus Plan by reason of any stock dividend, recapitalization, stock split, reverse stock split, combination of shares, exchange of shares, reorganization, merger, consolidation, split-up, spin-off, or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration.

If this Proposal Two is approved by stockholders, when an individual who has not been in the prior employ of the Company first becomes a non-employee Board member, whether through election by the Company's stockholders or appointment by the Board, he or she will receive an automatic option grant for 7,500 shares of Common Stock. In addition, on the date of each annual stockholders meeting, each individual who has served as a non-employee Board



member for at least six months prior to the date of such stockholder meeting, whether or not he or she has been in the prior employ of the Company, will automatically be granted a stock option to purchase 3,000 shares of Common Stock. The number and/or class of securities for which automatic option grants are to be subsequently made to eligible directors under the Automatic Option Grant Program will be adjusted in the event any change is made to the Common Stock issuable under the Omnibus Plan by reason of any stock dividend, recapitalization, stock

**Table of Contents**

split, reverse stock split, combination of shares, exchange of shares, reorganization, merger, consolidation, split-up, spin-off, or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration.

There will be no limit on the number of such automatic annual option grants any one non-employee Board member may receive over his or her period of Board service. Each option granted under the Automatic Option Grant Program will have an exercise price per share equal to 100% of the fair market value of the option shares on the automatic grant date 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.

The shares subject to each automatic option grant will immediately vest upon the optionee's death or permanent disability and upon certain changes in control of the Company. In addition, upon the successful completion of a hostile take-over of the Company, each automatic option grant may be surrendered to the Company for a cash distribution per surrendered option share in an amount equal to the excess of (a) the take-over price per share over (b) the exercise price payable for such shares.

**Other Equity Based Awards Program**

*Free Standing Stock Appreciation Rights.* The holder of a free standing stock appreciation right (SAR) is entitled to receive the excess of the fair market value (calculated as of the exercise date or, at the Committee's discretion, as of any time during a specified period before or after the exercise date) of a specified number of shares of the Company's Common Stock over the grant price of the SAR, as determined by the Committee, paid in shares of Common Stock. SARs vest and become exercisable in accordance with a vesting schedule established by the Committee.

*Restricted Stock and Restricted Stock Units.* The holder of restricted stock will own shares of the Company's Common Stock subject to restrictions imposed by the Committee (including, for example, restrictions on transferability or on the right to vote the restricted shares or to receive any dividends with respect to the shares) for a specified time period determined by the Committee. The restrictions, if any, may lapse or be waived separately or collectively, in installments or otherwise, as the Committee may determine. The holder of restricted stock units will have the right, subject to any restrictions imposed by the Committee, to receive shares of the Company's Common Stock at some future date determined by the Committee. The Committee also may permit accelerated vesting in the case of a participant's death, disability or retirement, or a change in control. If the participant's employment or service as a director terminates during the vesting period for any other reason, the restricted stock and restricted stock units will be forfeited, unless the Committee determines that it would be in the Company's best interest to waive the remaining restrictions.

*Performance Awards.* Performance awards give participants the right to receive payments in stock or property based solely upon the achievement of certain performance goals during a specified performance period. Subject to the terms of the Omnibus Plan, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any performance award granted, the amount of any payment or transfer to be made pursuant to any performance award and any other terms and conditions of any performance award is determined by the Committee. From time to time, the Committee may designate an award granted pursuant to the Omnibus Plan as an award of qualified performance based compensation within the meaning of Section 162(m) of the Code. Such a qualified performance based award must, to the extent required by Section 162(m), be conditioned solely on the achievement of one or more objective performance goals. The Committee must designate all participants for each performance period, and establish performance goals and target awards for each participant no later than 90 days after the beginning of each performance period within the parameters of Section 162(m) of the Code. Performance goals must be based solely on one or more of the following business criteria: revenue, cash flow, gross profit, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization and net earnings, earnings per share, margins (including one or more of gross, operating and net income margins), returns (including one or more of return on assets, equity, investment, capital and revenue and total stockholder return), stock price, economic value added, working capital, market share, cost reductions, workforce satisfaction and diversity goals, employee retention, customer satisfaction, completion of key projects and strategic plan development and implementation.

The measure of performance may be set by reference to an absolute standard or a comparison to specified companies or groups of companies, or other external measures, and may be applied at individual or organizational levels. If the Committee so provides for purposes of Section 162(m) of the Code, no person may be granted under the Omnibus Plan qualified performance based awards which could result in such person receiving more than \$1,500,000 in cash or the equivalent fair market value of shares of Common Stock determined at the date of grant for each full or partial fiscal year contained in the performance period of a particular qualified performance based award, except that if any other qualified performance based awards are outstanding for such person

**Table of Contents**

for a given fiscal year, such dollar limitation shall be reduced for each such fiscal year by the amount that could be received by the person under all such qualified performance based awards, divided, for each such qualified performance based award, by the number of full or partial fiscal years contained in the performance period of each such outstanding qualified performance based award (subject to adjustment in the case of a stock dividend or other distribution, including a stock split, merger or other similar corporate transaction or event, but only to the extent that such adjustment does not affect the status of any award intended to qualify as performance based compensation under Section 162(m) of the Code).

*Dividend Equivalents.* The holder of a dividend equivalent will be entitled to receive payments in shares of the Company's Common Stock, other securities or other property equivalent to the amount of cash dividends paid by the Company to its stockholders, with respect to the number of shares determined by the Committee. Dividend equivalents will be subject to other terms and conditions determined by the Committee.

*Stock Awards.* The Committee may grant unrestricted shares of the Company's Common Stock, subject to terms and conditions determined by the Committee and the Omnibus Plan limitations.

*Acceleration.* The Committee may permit accelerated vesting of other equity based awards upon the occurrence of certain events, including a change in control, regardless of whether the award is assumed, substituted or otherwise continued in effect by the successor corporation. The acceleration of vesting in the event of a change in the ownership or control may be seen as an anti-takeover provision and may have the effect of discouraging a merger proposal, a takeover attempt or other efforts to gain control of the Company.

**Special Tax Withholding Election**

The Committee may provide participants who hold options or other equity based awards with the right to have the Company withhold a portion of the shares otherwise issuable to such individuals in satisfaction of the withholding taxes to which such individuals become subject in connection with the exercise of those options or the vesting of those shares. Alternatively, the Committee may allow such individuals to deliver previously acquired shares of Common Stock in payment of such withholding tax liability. To the extent necessary to avoid adverse accounting treatment, the number of shares that may be withheld for this purpose shall not exceed the minimum number needed to satisfy the applicable income and employment tax withholding rules. If Common Stock is used to satisfy the tax withholding obligations, the stock shall be valued at its fair market value when the tax withholding is required to be made.

**Financial Assistance**

The Committee may assist any award recipient in the exercise of outstanding options or other equity based awards under the Omnibus Plan by (a) authorizing a full-recourse interest bearing loan from the Company, (b) permitting the award recipient to pay the exercise or purchase price in installments over a period of years or (c) authorizing a guarantee by the Company of a third-party loan to the award recipient, but in any case only to the extent permissible under Section 402 of the Sarbanes-Oxley Act of 2002. The terms and conditions of any such loan or installment payment will be established by the Committee in its sole discretion, but in no event may the maximum credit extended to the award recipient exceed the aggregate exercise price payable for the purchased shares (less the par value), plus any Federal and state income or employment taxes incurred in connection with the purchase.

**Amendment and Termination of the Omnibus Plan**

The Board may amend or modify the Omnibus Plan, subject to any required stockholder approval and certain other limitations. The Board may terminate the Omnibus Plan at any time, but the Omnibus Plan will in all events terminate on the earliest of (i) June 30, 2016, (ii) the date all shares available for issuance under the Omnibus Plan are issued or canceled pursuant to the exercise or surrender of options or other awards granted under the Omnibus Plan or (iii) the date all outstanding awards are terminated in connection with a Corporate Transaction. Any options or other awards outstanding at the time of termination of the Omnibus Plan will remain in force in accordance with the provisions of the instruments evidencing such grants.

**Options Granted**

The table below shows, as to the Named Executive Officers (as defined under Executive Compensation ) and the other indicated persons and groups, the number of shares of Common Stock subject to options granted under the Omnibus Plan during the period from April 1, 2007 to May 31, 2008, together with the weighted average exercise price per share.



**Table of Contents**

<b>Name and Position</b>	<b>Number of Option Shares Granted 4/1/07-5/31/08</b>	<b>Weighted Average Exercise Price</b>
V. Gordon Clemons Chairman of the Board and Former CEO	-0-	
Daniel J. Starck Chief Executive Officer, Chief Operating Officer, and President	20,000	\$ 26.50
Scott McCloud Chief Financial Officer	3,750	\$ 26.67
Donald C. McFarlane Chief Information Officer	8,600	\$ 26.20
Steven J. Hamerslag Nominee for Election as Director	3,000	\$ 26.85
Alan R. Hoops Nominee for Election as Director	3,000	\$ 26.85
R. Judd Jessup Nominee for Election as Director	3,000	\$ 26.85
Jean H. Macino Nominee for Election as Director	7,500	\$ 25.10
Jeffrey J. Michael Nominee for Election as Director	3,000	\$ 26.85
All current executive officers as a group (4 persons)	32,350	\$ 26.46
All current directors (other than executive officers) as a group (5 persons)	19,500	\$ 25.98
All other employees, including current officers who are not executive officers, as a group (164 persons)	164,300	\$ 26.75

**Plan Benefits**

The Committee in its sole discretion will determine the number and types of awards that will be granted under the Discretionary Option Grant Program and, accordingly, it is not possible to determine the benefits that will be received by eligible participants at this time. The Company does not have any specific current plans or commitments for any future awards under the Omnibus Plan. However, if Proposal Two is approved by stockholders, on the date of the Annual Meeting each of Messrs Hamerslag, Hoops, Jessup, and Michael and Ms. Macino will receive an additional grant to purchase 3,000 shares of Common Stock at an exercise price equal to the fair market value on such date.

**Certain Federal Income Tax Consequences**

The following is a summary of the principal U.S. federal income tax consequences generally applicable to awards under the Omnibus Plan.

*Grant of Options and SARs.* The grant of a stock option or SAR is not expected to result in any taxable income for the recipient.

*Exercise of Options and SARs.* Upon exercising a non-qualified stock option, the optionee will recognize ordinary income equal to the excess of the fair market value of the shares of the Company's Common Stock acquired on the date of exercise over the exercise price, and the Company will generally be entitled at that time to an income tax deduction for the same amount. Upon exercising a SAR, the recipient of the SAR will recognize ordinary income in an amount equal to the fair market value on the exercise date of any shares of the Company's Common Stock received, and the Company will receive an income tax deduction in the same amount.

*Disposition of Shares Acquired Upon Exercise of Options and SARs.* The tax consequence upon a disposition of shares acquired through the exercise of an option or SAR will depend on how long the shares have been held and

whether the shares were acquired by exercising a non-qualified stock option or SAR. Generally, there will be no tax consequence to the Company in connection with the disposition of shares acquired under an option or SAR.

*Awards Other than Options and SARs.* As to other awards granted under the Omnibus Plan that are payable in either cash or shares of the Company's Common Stock that are either transferable or not subject to substantial risk of forfeiture, the holder of the award must recognize ordinary income equal to (a) the amount of cash received or, as applicable, (b) the excess of (i) the fair market

**Table of Contents**

value of the shares received (determined as of the date of receipt) over (ii) the amount (if any) paid for the shares by the holder of the award. The Company will generally be entitled at that time to an income tax deduction for the same amount. As to an award that is payable in shares of the Company's Common Stock that are restricted from transfer and subject to substantial risk of forfeiture, unless a special election is made by the holder of the award under the Code, the holder must recognize ordinary income equal to the excess of (i) the fair market value of the shares received (determined as of the first time the shares become transferable or not subject to substantial risk of forfeiture, whichever occurs earlier) over (ii) the amount (if any) paid for the shares by the holder of the award. The Company will generally be entitled at that time to an income tax deduction for the same amount.

*Income Tax Deduction.* Subject to the usual rules concerning reasonable compensation, and assuming that, as expected, performance awards paid under the Omnibus Plan are qualified performance-based compensation within the meaning of Section 162(m) of the Code, the Company will generally be entitled to a corresponding income tax deduction at the time a participant recognizes ordinary income from awards made under the Omnibus Plan.

*Application of Section 16.* Special rules may apply to individuals subject to Section 16 of the Exchange Act. In particular, unless a special election is made pursuant to the Code, shares received through the exercise of a stock option or SAR may be treated as restricted as to transferability and subject to a substantial risk of forfeiture for a period of up to six months after the date of exercise. Accordingly, the amount of any ordinary income recognized and the amount of the Company's income tax deduction will be determined as of the end of that period.

*Deductibility of Executive Compensation Under Code Section 162(m).* Section 162(m) of the Code generally limits to \$1,000,000 the amount that a publicly-held corporation is allowed each year to deduct for the compensation paid to each of the corporation's chief executive officer and the corporation's other four most highly compensated executive officers. However, qualified performance-based compensation is not subject to the \$1,000,000 deduction limit. In general, to qualify as performance-based compensation, the following requirements need to be satisfied:

(1) payments must be computed on the basis of an objective, performance-based compensation standard determined by a committee consisting solely of two or more outside directors, (2) the material terms under which the compensation is to be paid, including the business criteria upon which the performance goals are based, and a limit on the maximum bonus amount which may be paid to any participant pursuant with respect to any performance period, must be approved by a majority of the Company's stockholders and (3) the committee must certify that the applicable performance goals were satisfied before payment of any performance-based compensation.

The Omnibus Plan has been designed to permit grants of stock options and SARs issued under the Omnibus Plan to qualify under the performance-based compensation rules so that income attributable to the exercise of a non-qualified stock option or a SAR may be exempt from \$1,000,000 deduction limit. Grants of other awards under the Omnibus Plan may not so qualify for this exemption. The Omnibus Plan's provisions are consistent in form with the performance-based compensation rules, so that if the committee that grants options or SARs consists exclusively of members of the Board who qualify as outside directors, and the exercise price (or deemed exercise price, with respect to SARs) is not less than the fair market value of the shares of Common Stock to which such grants relate, the compensation income arising on exercise of those options or SARs should qualify as performance-based compensation which is deductible even if that income would be in excess of the otherwise applicable limits on deductible compensation income under Code Section 162(m).

**Accounting Treatment**

Effective April 1, 2006, (the implementation date), the beginning of fiscal 2007, the Company has accounted for stock-based compensation as contemplated under the Omnibus Plan under Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment (SFAS 123(R)). Pursuant to SFAS 123(R), the Company is required to expense against the Company's reported earnings: (1) the fair value of all option grants or stock issuances made to employees or directors on or after the implementation date; and (2) a portion of the fair value of each option and stock grant made to employees or directors prior to the implementation date that represents the unvested portion of these share-based awards as of such implementation date. These amounts are expensed after the implementation date over the respective vesting periods of each award using the straight line attribution method. The Company is using the modified prospective method under SFAS 123(R), whereby no prior periods are restated; rather, the Company will continue to disclose prior period pro-forma net earnings and net earnings per share in footnote



disclosure. The number of outstanding options may affect the Company's earnings per share on a fully diluted basis.

**Stockholder Approval**

The affirmative vote of a majority of the outstanding voting shares of the Company present or represented and entitled to vote at

**Table of Contents**

the Annual Meeting is required for approval of the amendment to the Omnibus Plan to reduce the number of shares of Common Stock underlying options to be granted under the automatic option grant program from 11,250 to 7,500 shares for initial automatic option grants to be awarded to a director upon first joining the Board, and from 4,500 to 3,000 shares for annual automatic option grants to be awarded to directors on the date of each annual meeting of stockholders. Should such stockholder approval not be obtained, the Automatic Option Grant Program of the Omnibus Plan will remain in full force and effect as it currently operates.

**THE BOARD RECOMMENDS A VOTE FOR THE AMENDMENT TO THE OMNIBUS PLAN.**

**Table of Contents**

**PROPOSAL THREE**

**RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

On August 14, 2006, we advised Grant Thornton LLP that it was dismissed by the Audit Committee as our independent registered public accounting firm. Grant Thornton's report on our consolidated financial statements for the fiscal years ended March 31, 2006 and 2005 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles, except that (i) Grant Thornton's report for the fiscal year ended March 31, 2006 contained an adverse opinion on the effectiveness of our internal control over financial reporting because of material weaknesses and (ii) Grant Thornton's report for the fiscal year ended March 31, 2005 contained the following statement: Since management was unable to complete its assessment of internal control over financial reporting as of March 31, 2005, and we were unable to apply other procedures to satisfy ourselves as to the effectiveness of our internal control over financial reporting, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on either management's assessment or on the effectiveness of our internal control over financial reporting in our report dated July 15, 2005.

During the two year period ended March 31, 2006, and for the period from April 1, 2006 through the date of dismissal, there have been no disagreements between us and Grant Thornton on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to Grant Thornton's satisfaction, would have caused Grant Thornton to make reference to the subject matter of such disagreements in connection with the issuance of its report on our financial statements.

Under Item 304(a)(1)(v)(A) of Regulation S-K promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, Grant Thornton has advised us of material weaknesses in our internal controls identified by management and reported on our Form 10-K and 10-Q filed on June 30, 2006 and August 14, 2006 respectively. Our Audit Committee has discussed these material weaknesses with Grant Thornton and management has authorized Grant Thornton to respond fully to the inquiries of the successor accountant about these material weaknesses.

On October 2, 2006, the Audit Committee selected and appointed Haskell & White LLP to serve as our independent auditors for the fiscal year ended March 31, 2007. During the two year period ended March 31, 2006, and for the interim period from April 1, 2006 until the engagement of Haskell & White, neither we, nor anyone engaged on its behalf, had consulted with Haskell & White regarding (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on our financial statements; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions thereto) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

The Audit Committee has appointed Haskell & White LLP to serve as our independent auditors for the fiscal year ending March 31, 2009, and our stockholders are being asked to ratify this appointment. Stockholder ratification of the appointment of Haskell & White LLP as our independent auditors is not required by our Bylaws or other applicable legal requirement. However, the Board is submitting the Audit Committee's appointment of Haskell & White 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 Haskell & White LLP as our 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 us and our stockholders.

Representatives of Haskell & White LLP attended or participated by telephone in all meetings of the Audit Committee held during fiscal 2008. We expect that representatives of Haskell & White 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 as of March 30, 2008, include the audit of our annual financial statements, review of financial statements included in our Form 10-Q quarterly reports, and services that are normally provided by our independent

auditors in connection with statutory and regulatory filings or engagements for the relevant fiscal years. Audit fees billed by Haskell & White LLP for services rendered to us in the audit of annual financial statements and the reviews of the financial statements included in our Form 10-Q were approximately \$906,411 for the 2008 fiscal year and approximately \$612,765 for the 2007 fiscal year. Audit fees billed by our prior independent auditors, Grant Thornton LLP, for services rendered to us in the audit of annual financial statements were approximately \$83,300 for the 2008 fiscal year and approximately \$66,250 for the 2007 fiscal year.

**Table of Contents**

**Audit-Related Fees.** Audit-related fees consist of assurance and related services provided by Haskell & White LLP that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees.

Fiscal 2008

Haskell & White LLP audit of the financial statements of CorVel Incentive Savings Plan \$23,000

Fiscal 2007

Haskell & White LLP audit of the financial statements of CorVel Incentive Savings Plan \$23,595

**Tax Fees.** Tax fees consist of professional services rendered by our independent auditors for tax compliance, tax advice and tax planning.

Fiscal 2008

Haskell & White LLP tax consulting services \$29,594

Fiscal 2007

Haskell & White LLP tax consulting services \$ 6,083

**All Other Fees.** Fees for a retainer, travel and other miscellaneous expenses billed by Haskell & White LLP were \$48,403 during the fiscal year 2008 and \$23,265 during the fiscal year 2007. There were no such other fees billed by Grant Thornton LLP during the fiscal year 2007.

**Determination of Independence**

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

**Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

The Audit Committee pre-approves and reviews audit and permissible non-audit services performed by its independent auditors as well as the fees charged by its independent auditors 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 Audit Committee may approve permissible non-audit services prior to the completion of the audit in lieu of pre-approving such services.

**Stockholder Approval**

The affirmative vote of a majority of the shares of the Common Stock present or represented by proxy at the Annual Meeting and entitled to vote is being sought for ratification of the appointment of Haskell & White LLP as our independent auditors for the fiscal year ending March 31, 2009.

**THE BOARD RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF HASKELL & WHITE LLP AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING MARCH 31, 2009.**

**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.

**Table of Contents**

**AUDIT COMMITTEE REPORT**

*The information contained in this Audit Committee Report shall not be deemed to be soliciting material or to be filed or incorporated by reference into any filings with the Securities and Exchange Commission, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.*

The Audit Committee carries out its responsibilities pursuant to its written charter, and the members of the fiscal year 2008 Audit Committee have prepared and submitted this Audit Committee report. Each Audit Committee member is considered independent because each member satisfies the independence requirements for board members prescribed by the applicable rules of Nasdaq and Rule 10A-3 of the Securities Exchange Act of 1934, as amended.

Among other things, the Audit Committee oversees CorVel's financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control over financial reporting. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management CorVel's audited financial statements in the Annual Report on Form 10-K for the fiscal year ended March 31, 2008, including a discussion of the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgments; and the clarity of disclosures in the financial statements; and management's assessment of CorVel's internal control over financial reporting.

The audit committee also reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of CorVel's accounting principles and such other matters as are required to be discussed with audit committees by Statement on Auditing Standards No. 61, *Communication With Audit Committees*, as may be amended, modified or supplemented. In addition, the audit committee discussed with the independent auditors their independence from management and CorVel; such discussions included matters in the written disclosures required by Independence Standards Board Standard No. 1, *Independence Discussions With Audit Committees*, as may be amended, modified or supplemented. Throughout the year and prior to the performance of any such services the Audit Committee also considered the compatibility of potential non-audit services with the auditors independence.

The audit committee discussed with CorVel's independent auditors their overall approach, scope and plans for the audit. At the conclusion of the audit, the Audit Committee met with the independent auditors, with and without management present, to discuss the results of their examination, their evaluation of CorVel's internal control over financial reporting and the overall quality of CorVel's financial reporting.

In reliance on the reviews and discussions referred to above, the audit committee recommended to the board (and the board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended March 31, 2008, for filing with the Securities and Exchange Commission.

The Audit Committee has also recommended the selection of Haskell & White LLP as independent auditors for the year ending March 31, 2009.

**AUDIT COMMITTEE**

R. Judd Jessup, Chair  
Steven J. Hamerslag  
Alan R. Hoops

**Table of Contents****EXECUTIVE OFFICERS OF CORVEL**

The following table sets forth certain information regarding our executive officers as of May 31, 2008:

<b>Name</b>	<b>Age</b>	<b>Position</b>
V. Gordon Clemons	64	Chairman of the Board
Daniel J. Starck	41	Chief Executive Officer, President and Chief Operating Officer
Scott McCloud	41	Chief Financial Officer
Donald C. McFarlane	55	Chief Information Officer

The following is a brief description of the capacities in which each of our executive officers who is not also a director has served, and other biographical information. The biography of Mr. Clemons appears earlier in this Proxy Statement under Proposal One: Election of Directors.

Mr. Starck has been our President and Chief Operating Officer since May 2006 and our Chief Executive Officer since August 2007. Prior to joining CorVel, Mr. Starck served as the Executive Vice President, Customer Services since November 2005 for Apria Healthcare Group, Inc., a provider of home healthcare services. From July 2003 to November 2005, Mr. Starck served as Apria's Executive Vice President, Business Operations. From April 2001 to July 2003, Mr. Starck served as Division Vice President, Operations for Apria's Pacific Division. From January 1998 to April 2001, Mr. Starck served as Regional Vice President, Operations for Apria's Northern California Region. Mr. McCloud has been our Chief Financial Officer since August 2005. From June 1997 to August 2005, Mr. McCloud was our Controller. Mr. McCloud joined CorVel in June 1995 and served as Assistant Controller until his promotion to Corporate Controller in June 1997. Prior to joining CorVel, Mr. McCloud served as a staff accountant at Geffen Mesher & Co., P.C. a public accounting firm, from 1994 to 1995.

Mr. McFarlane has been our Chief Information Officer since February 2007. Before becoming Chief Information Officer, Mr. McFarlane was Vice President, Information Technology from 1995 through January 2007. Prior to joining CorVel in 1994 as a Software Development Manager, Mr. McFarlane was Vice President of Avant Software, Inc., a software consulting company. In 1988, Avant was engaged to develop CorVel's MedCheck medical bill review system, and Mr. McFarlane served as the chief architect and project manager for this effort. Mr. McFarlane has more than 30 years' experience in computer software and operations.

**Executive Compensation****Compensation Discussion and Analysis**

The following discussion and analysis of our compensation practices and related compensation information should be read in conjunction with the Summary Compensation table and other tables included in this proxy statement, as well as our financial statements and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008. The following discussion includes statements of judgment and forward-looking statements that involve risks and uncertainties. These forward-looking statements are based on our current expectations, estimates and projections about our industry, our business, compensation, management's beliefs, and certain assumptions made by us, all of which are subject to change. Forward-looking statements can often be identified by words such as anticipates, expects, intends, plans, predicts, believes, seeks, estimates, may, will, should, would, could, potential, continue, ongoing, similar, variations or negatives of these words and include, but are not limited to, statements regarding projected performance and compensation. Actual results could differ significantly from those projected in the forward-looking statements as a result of certain factors, including, but not limited to, the risk factors discussed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008. We assume no obligation to update the forward-looking statements or such risk factors.

*Introduction*

It is the responsibility of the compensation committee of our board of directors to oversee CorVel's general compensation policies; to determine the base salary and bonus to be paid each year to each of CorVel's executive officers; and to determine the compensation to be paid each year to our directors for service on our Board of Directors and the various committees of our Board of Directors. In addition, the compensation committee administers CorVel's Restated Omnibus Incentive Plan (Formerly the Restated 1988 Executive Stock Option Plan) with respect to stock

option grants or other equity-based awards made to our executive officers. Stock options are granted to our directors automatically under the automatic option grant program of our Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) and the compensation committee does not exercise any discretion over that program. The three broad components of CorVel's executive officer compensation are base salary, annual cash incentive awards, and long term equity-based incentive awards. The compensation committee periodically



**Table of Contents**

reviews total compensation levels and the allocation of compensation among these three components for each of the executive officers in the context of CorVel's overall compensation policy. Additionally, the compensation committee, in conjunction with our board, reviews the relationship of executive compensation to corporate performance and relative stockholder return. The compensation committee believes that CorVel's current compensation plans are competitive and reasonable. Below is a description of the general policies and processes that govern the compensation paid to CorVel's executive officers, as reflected in the accompanying compensation tables.

*General Compensation Philosophy*

We operate in the medical cost containment and managed care industry. The compensation committee believes that our compensation programs for executive officers should: (a) be designed to attract, motivate and retain talented executives responsible for our success, (b) be determined to be competitive, and (c) reward individuals based on the achievement of designated financial targets, individual contribution, and financial performance relative to that of our competitors and market indices. Our philosophy is to focus more on equity compensation (to incentivize service within a 5 year timeframe for time-vesting stock options) than on annual base compensation because that approach more closely aligns the interests of executive officers with those of our shareholders. Within this philosophy, the committee's objectives are to:

Offer a total compensation program that takes into consideration the compensation practices of other managed care companies of similar size with which we compete for executive talent;

Tie an individual's total compensation to individual and profit center performance as well as the overall financial success of CorVel;

Provide annual cash incentive awards that take into account our overall financial performance in terms of designated corporate objectives; and

Strengthen the alignment of the interests of executive officers with those of stockholders by providing significant equity-based, long-term incentive awards.

*Compensation Components and Process*

The compensation committee's conclusions on the compensation levels for the executive officers are based in part on executive compensation data including cash compensation and long-term incentive compensation drawn from information available in the public domain, and also the recommendations of our chief executive officer. When evaluating publicly available market data for compensation comparison purposes, the compensation committee seeks to obtain data regarding organizations considered to be comparable from a variety of perspectives, in order to ensure comparisons include both relevant labor market for talent as well as business competitors.

Information was also obtained from public filings of other cost containment and managed care companies with similar annual revenue to provide another data point in determining market levels for total compensation. The compensation committee believes that the combination of published public domain data and data from the proxy filings of peer companies in the cost containment and managed care industry allows CorVel to assess relevant external market pay practices, and to understand the range of pay practices occurring in the market. These external market pay practices help inform the organization on the competitiveness of its pay programs. The compensation committee does not use the services of any compensation consultant.

The compensation committee considered fiscal 2008 executive compensation on May 10, 2007, July 9, 2007, August 2, 2007, October 29, 2007, and January 31, 2008 and fiscal 2007 executive compensation on November 2, 2006, May 26, 2006, November 6, 2006, and April 10, 2007. The material considered by the compensation committee also included the historical compensation and stock option awards made to each of our executive officers. As described in more detail below, the results of each executive's annual management by objectives plan, including a comparison of performance and job description relative to achievement and potential, were reviewed and discussed.

**Table of Contents****Summary Compensation Table**

Name and Principal Position*	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(5)	Non-Equity Incentive Plan Compensation (\$)(6)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$)(7)	Other Compensation (\$)(7)	Total (\$)
V. Gordon	2008	\$350,000	\$100,000(3)	\$	\$141,199	\$	\$	\$3,825	\$495,024
Clemons Chairman of the Board and Former CEO (1)	2007	\$350,000	\$100,000(4)	\$	\$55,035	\$	\$	\$3,472	\$508,507
Daniel J. Starck CEO, President and COO (1)	2008	\$345,154			\$101,092	\$318,493		\$352	\$765,091
	2007	\$280,077			\$194,517	\$140,000		\$2,851	\$617,445
Donald C. McFarlane CIO (2)	2008	\$167,563			\$35,630	\$46,527		\$1,912	\$251,632
	2007	\$158,420			\$41,727	\$53,000		\$4,275	\$257,422
Scott McCloud CFO	2008	\$137,006			\$25,759	\$40,388		\$1,132	\$204,285
	2007	\$124,167			\$25,243	\$37,500		\$951	\$190,861

\* Each of the individuals listed above are referred to in this Proxy Statement as our named executive officers.

(1) Mr. Clemons resigned the position of Chief Executive Officer in August 2007. Mr. Starck commenced employment as President and COO in May 2006 and was appointed

- Chief Executive Officer in August 2007.
- (2) Mr. McFarlane was appointed Chief Information Officer in February 2007.
- (3) This discretionary bonus was approved in July 2008, earned as of March 31, 2008, and paid respectively in July 2008 for prior fiscal year 2008.
- (4) This discretionary bonus was approved in November, 2006, earned as of December 31, 2006 and paid respectively in April 2007 for prior calendar year 2006.
- (5) Represents the dollar amount of compensation expense recognized in fiscal 2008 and 2007, respectively, for financial reporting purposes related to stock option awards granted in fiscal 2008

and prior fiscal years, excluding the effects of forfeiture assumptions.

Refer to Note B, Stock-Based Compensation, in the Notes to the Consolidated Financial Statements included in the Annual Reports on Form 10-K filed June 16, 2008 and June 14, 2007, respectively, for the relevant assumptions used to determine the valuation of our option awards.

- (6) See the discussion under Annual Incentive Awards Plan for a description of our cash-based incentive plan awards..
- (7) Includes matching contributions by us under our 401(k) savings plan and annual premiums paid by us for the purchase of group term life insurance in an amount equal to each executive officer's annual

salary as follows:

	<b>Fiscal Year</b>	<b>CorVel Contributions to Section 401(k) Plan</b>	<b>CorVel-Paid Life Insurance Premiums</b>
<b>V. Gordon Clemons</b>	2008	\$ 900	\$ 2,925
	2007	\$ 700	\$ 2,772
<b>Daniel J. Starck</b>	2008	\$ 0	\$ 352
	2007	\$ 0	\$ 101
<b>Donald C. McFarlane .</b>	2008	\$ 1,315	\$ 597
	2007	\$ 1,104	\$ 421
<b>Scott R. McCloud</b>	2008	\$ 1033	\$ 99
	2007	\$ 896	\$ 55

#### **Principal Elements of Executive Compensation**

*Base Salary.* In determining executive compensation, we take into account overall expense control. Our board of directors approves initial annual base salary for newly hired executive officers based on comparable data for similar positions at peer companies. Our compensation committee reviews all executive officer base salaries annually, taking into account both updated peer group data in the public domain and individual performance during the previous year. We believe that adjustments should be

**Table of Contents**

made to base salary both to reflect market changes and to reward high performance within the confines of overall expense control. Each of our executive officers undergoes an annual performance review with our chief executive officer, Gordon Clemons, and during that review develops an individual performance development plan for the upcoming year. In reviewing past performance, the chief executive officer and the executive officer will compare actual performance during the review year to the objectives set at the beginning of the year, taking into account other factors that may not have been anticipated when the objectives were first set. In setting objectives for the upcoming year, the chief executive officer and the executive officer will typically consider not only corporate objectives, but also the executive officer's short and long term career objectives. To assist our compensation committee in reviewing executive officer performance in fiscal 2007 for fiscal 2008 compensation purposes and in fiscal 2006 for fiscal 2007 compensation purposes, our chief executive officer provided the compensation committee with his analysis of the performance and potential of each executive officer ranked against each other executive officer, and made recommendations based on how well each executive officer executed on his or her individual performance development plan while also taking into account compensation paid by our market peer companies. In the case of the chief executive officer, the compensation committee ranked his fiscal 2007 performance against goals set by the compensation committee early in fiscal 2007 and ranked his fiscal 2006 performance against goals set by the compensation committee early in fiscal 2006. Decisions to adjust base salaries during fiscal 2008 were made by the compensation committee on May 10, 2007 and August 2, 2007, and decisions to adjust base salaries during fiscal 2007 were made by the compensation committee on November 2, 2006, and all such adjustments took effect on each executive officer's respective compensation adjustment anniversary date. Our compensation policies with respect to new hires are different as compared to annual adjustments because recruitment requires different consideration than retention. Mr. Starck's base salary was not adjusted during fiscal 2007 because his annual review was not until May 2007, but was adjusted on his anniversary date in May 2007 and then again in August 2007 when he was appointed as CEO. Mr. Clemons' base salary was not adjusted during fiscal 2007 because of his commitment to ongoing expense control. The other executive officers' base salaries were increased by a range of 4.4% to 5.6%.

*Discretionary Bonus.* The Compensation Committee also has the discretion under extraordinary circumstances to award bonuses based on a percentage of base salary. As of November 6, 2006, our compensation committee approved by unanimous written consent a discretionary bonus for Mr. Clemons for fiscal 2007 in the amount of \$100,000, in consideration of his contributions during the first three calendar quarters of 2006 in implementing changes in network solutions product development. As of July 1, 2008, our compensation committee approved by unanimous written consent a discretionary bonus for Mr. Clemons for fiscal 2008 in the amount of \$100,000, in consideration of his contributions as Chairman of the Board.

*Annual Incentive Awards Plan.* To reinforce the attainment of our goals, we believe that a substantial portion of the annual compensation of each executive officer should be in the form of variable cash incentive pay. In parallel with its review of base salaries for executive officers, the compensation committee considers the design and structure of the executive officer annual incentive awards plan. Cash incentive amounts for each executive officer are determined by the compensation committee based on the recommendation of our chief executive officer. Although we have a March 31 fiscal year end, we have calendar year budgets and annual cash incentive plans which are based on the calendar year. Cash incentive awards to the Chief Executive Officer and the other named executive officers are shown in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table above. Annual cash incentive plan awards are designed to reward personal contributions to our success and are earned under a structured formula. Each executive has some portion of his or her annual bonus measured against individual management by objective goals, or MBOs, established for that person, which, depending on the executive officer, included revenue growth, national sales and regional vice president management, implementation, planning and strategy for software development and IT infrastructure, and company-wide internal financial reporting and controls. The maximum amount that any executive may earn based on the MBO element is variable, with full achievement of MBOs resulting in an expected 75% payout and increasing up to 100% payout for achievement exceeding established MBOs. For executive officers with operations responsibilities, this element comprises a lesser percentage of the annual incentive award for the individual and for executive officers with corporate staff responsibilities, it comprises a greater percentage of the annual incentive award.

*Long-Term Equity-Based Incentive Awards.* The goal of our long-term, equity-based incentive awards is to serve as a long term staff retention vehicle by aligning the interests of executive officers with stockholders and providing each executive officer with a significant incentive to manage CorVel from the perspective of an owner with an equity stake in the business. The compensation committee administers our equity-based incentive plans for executive officers and determines the size of long-term, equity-based incentives according to each executive's position within CorVel, and sets a level it considers appropriate to create a meaningful opportunity for stock ownership. In addition, the compensation committee takes into account an individual's recent performance, his or her potential for future responsibility and promotion, and the number of unvested options held by each individual at the time of any new grant. However, there is no set formula for determining the size of a stock option award. Our chief executive officer historically has made recommendations to our board of directors and compensation committee regarding the amount of stock options and other compensation to grant to our other named executives based upon his assessment of their performance, and may continue to do so in the future. Our executive officers, however, do not make any determinations as to when stock options are granted. We do not require a minimum stock ownership by our executive officers, but the compensation committee considers an executive officer's existing stock holdings relative to performance in determining the size of awards.

**Table of Contents**

Under the CorVel Restated Omnibus Incentive Plan (Formerly the Restated 1988 Executive Stock Option Plan), we have the ability to grant different forms of equity compensation, including stock options, stock appreciation rights, restricted stock and restricted stock units, performance awards and other stock-based awards. We have chosen to use stock options exclusively for purposes of providing long-term incentives since we believe they best align with our objectives of providing incentives that are commensurate with total stockholder return and employee retention. Stock options provide actual economic value to the executive officer if he or she remains employed by us during the vesting period, and then only if the market price of our shares appreciates over the option term. The compensation amounts shown for stock options in the summary compensation table are calculated in accordance with Statement of Financial Accounting Standards No. 123(R) and represent the amount of compensation earned during fiscal 2007 that is reflected in our financial statements. Actual compensation earned from stock options can be higher or lower than the compensation expense recognized for purposes of SFAS 123(R). Consequently, stock options motivate executive officers by providing substantial upside compensation even though the entire amount of potential compensation is at risk. In the future, we may choose to grant different forms of equity compensation particularly if the use of such different forms of compensation become more prevalent in companies with which we compete or from which we intend to recruit personnel. Other factors that may lead us to provide different forms of equity compensation include, but are not limited to, the executives' perceived value of one form of equity compensation over another, the potential effect of stockholder dilution, and the financial statement cost of one form of equity compensation over the other. Under our Restated 1991 Employee Stock Purchase Plan, we also provide all employees who work more than 25 hours per week with the ability to purchase shares of common stock, through payroll deduction, at a pre-determined discount to the closing price at the end of a six month purchase period. For fiscal 2008 and fiscal 2007, our Board set the maximum permitted payroll deduction for the purposes of the Restated 1991 Employee Stock Purchase Plan at 20% of salary, and set the pre-determined discount at 5% of the closing price at the end of the purchase period.

Stock options provided to executive officers are typically granted pursuant to action by unanimous written consent of the compensation committee executed by the compensation committee members in person on the same day as each regularly scheduled quarterly meeting of the board of directors in conjunction with ongoing review of each executive officer's individual performance, unless the executive officer is a new hire or other individual performance considerations are brought to the attention of our compensation committee during the course of the year. Such meetings are usually scheduled well in advance of the meeting, without regard to earnings or other major announcements by us. We intend to continue this practice of approving stock-based awards concurrently with regularly scheduled meetings, unless earlier approval is required for new hires, new performance considerations or retention purposes, regardless of whether or not our board of directors or compensation committee knows material non-public information on such date. We have not timed, nor do we intend to time, our release of material non-public information for the purpose of affecting the value of executive compensation. The grant date of our stock options is the date our board of directors or compensation committee meets to approve such stock option grants, which also is the date our compensation committee executes its action by unanimous written consent regarding such approval. In accordance with our Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan), the exercise price of all options is set at the closing price of our common stock as reported by the Nasdaq Global Select Market on the day of grant. Option grants to non-executive employees typically occur quarterly in conjunction with their ongoing performance review, or shortly after hire, upon the next scheduled meeting of the board and compensation committee.

Material terms of options granted to our named executive officers in fiscal 2008 and fiscal 2007 typically included: (a) exercise price equal to the closing market value as quoted by the Nasdaq Global Select Market on the date of grant; (b) vesting of 25% one year from the grant date and then continued vesting in a series of thirty-six (36) equal installments over the remaining balance of the four-year period, contingent on the executive officer's continued service to CorVel; (c) a term no longer than five years; and (d) to the extent not already exercisable, the options become exercisable upon (i) a sale of assets, (ii) a merger in which CorVel does not survive or (iii) a reverse merger in which CorVel survives but ownership of 50% or more of the voting power of our stock is transferred, unless the option is assumed or replaced with a comparable option by the successor corporation. In addition, pursuant to the terms of the option agreements with Mr. Starck, in the event Mr. Starck is terminated at any time after a corporate change in



control transaction, the vesting of his options will accelerate and become fully vested. The options granted prior to July 1, 2006, are also subject to limited stock appreciation rights pursuant to which the options, to the extent exercisable at the time a hostile tender offer occurs, will automatically be canceled in return for a cash payment equal to the tender-offer price minus the exercise price multiplied by the number of shares for which the option was exercisable. Although stock options granted to our executive officers typically contain time-vesting provisions, on one occasion in fiscal 2008 and on one occasion in fiscal 2007, our compensation committee awarded stock options with performance vesting provisions, to Mr. Starck, Mr. McFarlane and Mr. McCloud, which will vest based on the achievement of certain performance criteria, approved by our board of directors and compensation committee, relating to revenue growth with respect to the fiscal 2008 grants and earnings growth with respect to the fiscal 2007 grants. The performance-based stock options were granted at a time when we were pursuing a new compensation strategy of aligning equity compensation with our earnings performance.

In fiscal 2008, we granted stock option awards for 186,350 shares to all full-time employees as well as executive officers, or less than 4% of our outstanding common stock. Of this amount, options for 150,000 shares of common stock were awarded to Daniel Starck upon his hiring as President and Chief Operating Officer. One option to purchase 75,000 shares of common stock will vest 25% on the first anniversary of the grant date, and the remaining 75% of the shares subject to the option will vest in 36 successive equal monthly installments upon completion of each month of service by Mr. Starck after the first anniversary of the

**Table of Contents**

grant date. The other option to purchase 75,000 shares of common stock will vest based on the achievement of certain performance criteria, approved by our board of directors and compensation committee, relating to earnings growth. These grants were larger than the grants to other named executives in the interest of providing an opportunity for a meaningful stock ownership for this new executive. Mr. Starck also was granted a time-vesting option for an additional 1,500 shares on November 2, 2006. On November 6, 2006, the compensation committee acting by unanimous written consent also awarded Mr. Clemons 45,000 stock options in recognition for his contributions to our success in the previous year and for incentive purposes. Options granted to executive officers on May 10, August 2, and October 29, 2007 and May 6, 2008,, were all approved by unanimous written consent of our compensation committee executed by the compensation committee members in person on the same day as the regularly scheduled board meeting on such date. Options granted to executive officers on February 4, 2008, were approved by unanimous written consent of our compensation committee on the date that specific revenue targets for those performance-based options were established.

As part of their ongoing performance reviews, in May 2008, Messrs. Starck, McFarlane, and McCloud each were granted options to purchase 2,000 shares, 800 shares, and 500 shares, respectively, of our common stock at an exercise price of \$32.44. These options vest 25% on the first anniversary of the grant date, and the remaining 75% of the shares vest in 36 successive equal monthly installments upon completion of each month of service after the anniversary of the grant date, and terminate five years from grant.

If the board of directors determined that an executive officer has engaged in fraudulent or intentional misconduct, and if the misconduct resulted in a significant restatement of our financial results, we expect that we would, among other disciplinary action, seek reimbursement of any portion of performance-based or incentive compensation paid or awarded to the executive that is greater than would have been paid or awarded if calculated based on the restated financial results. This remedy would be in addition to, and not in lieu of, other disciplinary actions and any actions imposed by law enforcement agencies, regulators or other authorities.

**Grants of Plan-Based Awards**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (1)			All Other Stock Awards		Exercise Price of Option	Grant Date Fair Value of Option
		Threshold	Target	Maximum	Threshold	Target	Maximum	Units of Shares or Securities Underlying Option	Options		
		(\$)	(\$)	(\$)	(#)	(#)	(#)	(#)	(#)	(\$/Sh)(2)	Awards (\$)(3)
V. Gordon Chairman of the Board and Former CEO (4)		\$	\$	\$							\$
Daniel J. Starck CEO, President and	5/10/07								2,000	27.15	21,818
	8/02/07								5,000	26.85	54,215

Chief Operating Officer	10/29/07						2,500	25.30	25,031
	1/31/08	318,493	350,000	0	0		0	0	0
	2/04/08					6,000	0	0	0
	2/04/08						2,500	25.10	23,882
Donald C. McFarlane Chief Information Officer	5/10/07						800	27.15	8,727
	8/02/07						1,000	26.85	10,843
	10/29/07			0	0		1,000	25.30	10,012
	1/31/08	46,572					0	0	0
	2/04/08					4,000	0	0	0
	2/04/08						1,000	25.10	9,553
Scott R. McCloud Chief Financial Officer	5/10/07						500	25.10	5,455
	8/02/07						600	26.85	6,506
	10/29/07			0	0		750	25.30	7,509
	1/31/08	40,388					0	0	0
	2/04/08					1,000	0	0	0
	2/04/08						400	25.10	3,821

- (1) The threshold and target will not be determinable until the completion of calendar year 2009.
- (2) The exercise price of the option award is equal to the closing price of our common stock as reported by the Nasdaq Global Select Market on the date of grant.
- (3) See Note B, Stock-Based Compensation, in the Notes to Consolidated

Financial Statements included in our Annual Report on Form 10-K filed June 16, 2008 for the relevant assumptions used to determine the valuation of our option awards.

- (4) Mr. Clemons was not granted any options during fiscal 2008.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End**

Name	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price(\$)	Option Expiration Date(2)	Number of Shares or Units of Stock That Have Not Vested (#)	Value of Shares or Units of Stock That Have Not Vested (\$)	Number of Shares or Units of Stock or Other Rights That Have Not Vested (#)	Market Payout Value of Unearned Shares, Shares, or Other Rights That Have Not Vested (\$)
V. Gordon Clemons Chairman of the Board and Former CEO	15,000	30,000		\$30.13	11/6/2011				
Daniel J. Starck CEO, President and Chief Operating Officer	34,375 0 500 0 0 0 0	40,625 75,000 1,000 2,000 5,000 2,500 2,500		15.76 15.76 29.41 27.15 26.85 25.30 25.10 25.10	5/26/2011 5/26/2011 11/02/2011 5/10/2012 8/02/2012 10/29/2012 2/04/2013 2/04/2013				
Donald C. McFarlane Chief Information Officer	1,200 1,200 1,125 1,008 1,792 1,063 1,407	0 0 75 117 533 437 843		23.55 25.83 17.35 17.14 13.47 13.50 15.79	8/07/2008 2/18/2009 6/10/2009 8/05/2009 2/09/2010 5/05/2010 9/01/2010				

Edgar Filing: CORVEL CORP - Form DEF 14A

	700	500		11.00	11/22/2010
	625	575		11.99	2/02/2011
	1,204	1,421		14.76	5/04/2011
	0	3,750		15.76	5/26/2011
	743	1,132		18.09	8/03/2011
	326	649		29.41	11/02/2011
	217	583		47.70	2/01/2012
	0	800		27.15	5/10/2012
	0	1,000		26.85	8/02/2012
	0	1,000		25.30	10/29/2012
	0		4,000(4)	25.10	2/04/2013
	0	1,000		25.10	2/04/2013
Scott R. McCloud	300	0		25.83	2/18/2009
Chief Financial Officer	563	37		17.35	6/10/2009
	538	62		17.14	8/05/2009
	1,156	344		13.47	2/09/2010
	531	219		13.50	5/05/2010
	3,750	2,250		15.79	9/01/2010
	253	197		13.16	12/01/2010
	391	359		11.99	2/02/2011
	344	406		14.76	5/04/2011
	0	1,500		15.76	5/26/2011
	297	453	1,500(3)	18.09	8/03/2011
	200	400		29.41	11/02/2011
	135	365		47.70	2/01/2012
	0	500		27.15	5/10/2012
	0	600		26.85	8/02/2012
	0	750		25.30	10/29/2012
	0		1,000(4)	25.10	2/04/2013
	0	400		25.10	2/04/2013

(1) Options become exercisable for 25% of the option shares one year from the grant date (and thereafter the remaining shares become exercisable in 36 equal monthly installments).

(2) The expiration date of each option award is five years after

the date of  
grant.

**Table of Contents**

- (3) Options become exercisable based on achievement of certain performance criteria related to earnings growth.
- (4) Options become exercisable based on achievement of certain performance criteria related to revenue growth.

**Option Exercises and Stock Vested**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
V. Gordon Clemons Chairman of the Board and Former CEO	0	\$ 0		\$
Daniel J. Starck Chief Executive Officer, President and Chief Operating Officer	0	0		
Donald C. McFarlane Chief Information Officer	5,850	23,724		
Scott R. McCloud Chief Financial Officer	2,400	8,923		

- (1) Represents the difference between the exercise price and the fair market value of our common stock on the date of exercise.

*Perquisites*



Our executives are entitled to the same perquisites as all employees and do not receive additional perquisites because they hold executive positions. All employees that participate in our 401(k) plan receive a discretionary matching contribution from us in an amount equal to a percentage of the employee's first 6% of contribution as approved by the Board of directors in its sole discretion on an annual basis. All full-time employees are eligible to participate in our Restated 1991 Employee Stock Purchase Plan, which in fiscal 2008 and fiscal 2007 provided a 5% discount from market price on the last day of the purchase period. Our health and life insurance plans are the same for all employees. We typically offer reimbursement to newly hired executive officers for relocation costs.

*Post-Employment Compensation*

We do not provide pension arrangements, non-qualified deferred compensation, or post-retirement health coverage for our executives or employees. All full-time employees are eligible to participate in our 401(k) contributory defined contribution plan. In any plan year, the Board of directors in its sole discretion decides whether or not to contribute to each participant's account a matching contribution equal to a percentage of the first 6% of the participant's compensation that has been contributed to the plan. All of our executive officers participated in the plan during fiscal 2008 and fiscal 2007 and received matching contributions.

*Employment Contracts, Termination of Employment and Change-In-Control Agreements*

*Employment Contracts.* We do not have employment contracts with any of our named executive officers other than Messrs. Clemons and Starck. On January 26, 1988, we along with North Star entered into an employment agreement with Mr. Clemons. The agreement became effective on February 15, 1988 and has an indefinite term. The agreement initially provided Mr. Clemons with an annual salary of \$250,000, payable in semi-monthly installments. Mr. Clemons may terminate the agreement at any time on four months notice and we may terminate the agreement at any time with or without cause. If Mr. Clemons is terminated without cause, we are required to pay Mr. Clemons his salary for one year after such termination, less any other employment compensation received by Mr. Clemons during such one year period. The Compensation Committee approved an increase in Mr. Clemons' annual salary to \$350,000, effective January 1, 2002.

We entered into an employment agreement effective May 26, 2006 with Dan Starck in connection with Mr. Starck's appointment as our President and Chief Operating Officer. Pursuant to the terms of this employment agreement, Mr. Starck will receive an initial annual base salary of \$330,000, subject to periodic review and adjustment. For the remainder of calendar year 2006, Mr. Starck will be eligible to receive, in our sole discretion, a guaranteed bonus of \$75,000, provided that he completes at least six months of employment with us before the end of calendar year 2006, and he will be eligible to receive, in our sole discretion, an additional bonus of up to \$75,000 based upon certain performance criteria to be determined by our Board of Directors. For calendar year 2007 and each calendar year thereafter during the term of the employment agreement, Mr. Starck will be eligible to receive, in our sole discretion, a discretionary annual bonus of up to 70% of his annual base salary upon meeting certain expectations, or up to 100% of his annual base salary for exceeding such expectations. The bonus amount will be based on

**Table of Contents**

the following factors: (1) our financial performance as determined and measured by our Board of Directors and Chief Executive Officer; and (2) Mr. Starck's achievement of management targets and goals as set by us.

The employment agreement with Mr. Starck continues until terminated upon written notice by either party at any time for any reason. Pursuant to the terms of the employment agreement, if (i) we terminate Mr. Starck's employment other than for cause (as such term is defined in the employment agreement), because of his death, or as a result of disability or (ii) Mr. Starck terminates his employment within 60 days following a reduction in his annual base salary to an annual amount less than \$297,000, Mr. Starck will be entitled to continued payment of his then current annual base salary for (a) a minimum of twenty-six weeks and (b) an additional week for each calendar quarter of service provided to us during the term of the employment agreement, provided that the total of such payments shall not exceed the annual base salary for one year and in any event shall cease at such time as Mr. Starck is gainfully employed elsewhere, and provided further that such payments shall be conditioned on Mr. Starck signing a general release of all known and unknown claims against us. Mr. Starck also will be entitled to certain gross-up payments not to exceed \$500,000 to offset any applicable excise taxes imposed pursuant to Sections 280G and 4999 of the Internal Revenue Code of 1986, as amended.

In connection with his employment, Mr. Starck also was granted options to purchase an aggregate of 150,000 shares of our common stock under and pursuant to the terms of our Restated Omnibus Incentive Plan and option agreements. One option to purchase 75,000 shares of Common Stock will vest 25% on the first anniversary of the grant date, and the remaining 75% of the shares subject to the option will vest in 36 successive equal monthly installments upon completion of each month of service by Mr. Starck after the first anniversary of the grant date. The other option to purchase 75,000 shares of common stock will vest based on the achievement of certain performance criteria, approved by our Board of Directors and Compensation Committee, relating to earnings growth. Pursuant to the terms of the option agreements, in the event that Mr. Starck is terminated at any time after a corporate change in control transaction, the vesting of his options will accelerate and become fully vested.

In the event of a corporate change in control transaction, each outstanding option granted under the Discretionary Option Grant Program of the Restated Omnibus Incentive Plan will automatically become exercisable as to all of the option shares immediately prior to the effective date of the corporate change in control transaction. However, no acceleration will occur if and to the extent: (a) such option is either to be assumed by the successor corporation or parent thereof or replaced by a comparable option to purchase shares of the capital stock of the successor corporation or parent thereof, (b) such option is to be replaced with a cash incentive program of the successor corporation designed to preserve the option spread existing at the time of the corporate change in control transaction and incorporating the same vesting schedule applicable to the option or (c) acceleration of such option is subject to other applicable limitations imposed by the Compensation Committee at the time of grant.

The Compensation Committee, as the administrator of the Restated Omnibus Incentive Plan, has the authority to provide for accelerated vesting of the shares of common stock subject to any outstanding options held by any of the named executive officers in connection with certain changes in control of CorVel or the subsequent termination of the officer's employment following a change in control.

*Summary Termination Table.* The following table summarizes each executive officer's present estimated entitlement to severance and stock option acceleration upon a termination other than for cause, and a termination other than for cause following a change in control, as if such termination occurred on March 31, 2008.

Name	Termination Other than for Cause-No Change of Control		Termination within 60 days after Reduction in Salary		Termination after a Change in Control	
	Cash	Accelerated Option Vesting	Cash	Accelerated Option Vesting	Cash	Accelerated Option Vesting
V. Gordon Clemons	\$350,000	N/A	N/A	N/A	N/A	N/A%
Daniel J. Starck (1)	\$170,000	N/A	\$170,000	N/A	N/A	100%
Donald C. McFarlane	N/A	N/A	N/A	N/A	N/A	N/A

Scott R. McCloud	N/A	N/A	N/A	N/A	N/A	N/A
------------------	-----	-----	-----	-----	-----	-----

(1) Mr. Starck is entitled to certain gross up payments not to exceed \$500,000 to offset any applicable excise taxes imposed pursuant to Sections 280G and 4999 of the Internal Revenue Code of 1986, as amended.

These termination provisions were individually negotiated with Mr. Clemons and Mr. Starck for recruitment and retention purposes.

**Table of Contents****Principal Elements of Director Compensation***Compensation of Directors*

Each non-employee director received an amount equal to \$3,000 in fiscal 2008 for each Board meeting attended in person, as well as reimbursement for all associated travel expenses, and \$1,000 for each telephonic Board meeting and each in-person or telephonic committee meeting attended provided it was not in conjunction with a duly convened Board meeting. Other than the Chairman of the Audit Committee, who in fiscal 2008 received \$1,000 for each Audit Committee meeting attended and an annual retainer of \$4,000 for other services performed in his capacity as Chairman of the Audit Committee, the directors did not receive fees for any other director services during fiscal 2008. These amounts were determined and approved during a telephonic meeting held on April 24, 2006, by the Nomination and Governance Committee based on their prior experience and ratified by the Compensation Committee. In the future, any adjustments to director compensation will be approved by the Compensation Committee.

Currently, when an individual who has not previously been in our employ first becomes a non-employee member of the Board, he or she receives an automatic option grant for 11,250 shares of common stock (as adjusted for the December 2006 three-for-two stock split in the form of a 50% stock dividend (the "Stock Split")) under the CorVel Corporation Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock 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 is standing for re-election as a Board member at that particular meeting and whether or not such individual has been in our prior employ, is automatically granted an option to purchase 4,500 shares of common stock (as adjusted for the Stock Split). The exercise price of these options is set at the closing price of our common stock as reported by the Nasdaq Global Select Market on the date of grant.

In light of the Company's stock repurchase program pursuant to which 708,666 shares of common stock were repurchased during fiscal 2007 and the impact of such repurchases on the Company's total outstanding shares, each non-employee Board member agreed to waive his or her right to receive the additional 1,500 shares of common stock under such automatic option grants that resulted from the Stock Split, such that the options automatically granted to each of Messrs. Hamerslag, Hoops, Jessup and Michael at the 2007 annual meeting of stockholders entitles each of them to purchase only an aggregate of 3,000 shares of common stock (which outstanding option may be adjusted for any future stock splits, stock dividends and the like) at an exercise price of \$26.85, which was the fair market value of the common stock on August 2, 2007 (the date of the 2007 annual meeting of stockholders). Upon joining the Board in February 2008, Ms. Macino also agreed to waive her right to receive the additional 3,750 shares of common stock under her initial automatic option grant that resulted from the Stock Split, such that the option automatically granted to her upon her appointment to the Board entitles her to purchase only an aggregate of 7,500 shares of common stock (which outstanding option may be adjusted for any future stock splits, stock dividends and the like) at an exercise price of \$25.10, which was the fair market value of the common stock on February 4, 2008 (the date she joined the Board). In addition, Ms. Macino and each of Messrs. Hamerslag, Hoops, Jessup, and Michael will be automatically granted an option to purchase an additional 3,000 shares of common stock on August 14, 2008 (the date of the 2008 annual meeting of stockholders) at an exercise price equal to the fair market value of the common stock on such date if Proposal Two set forth in this proxy statement is approved by stockholders, or an option to purchase an additional 4,500 shares of common stock if Proposal Two is not approved by stockholders. Each automatic grant has a maximum term of ten years measured from the grant date, and becomes 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.

**Director Compensation**

<b>Fees</b>	<b>Change in Pension Value and</b>
-------------	--

Name(1)	<b>Earned</b>	<b>Non-Equity Nonqualified Incentive</b>					<b>Total</b>
	<b>or Paid in Cash</b>	<b>Stock Awards</b>	<b>Option Awards</b>	<b>Plan Compensation</b>	<b>Deferred Compensation</b>	<b>All Other Compensation</b>	
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)(2)(3)</b>	<b>(\$)</b>	<b>Earnings</b>	<b>(\$)</b>	<b>(\$)</b>
Steven J. Hamerslag	\$15,000	\$	\$32,529	\$	\$	\$	\$47,529
Alan R. Hoops	18,000		32,529				50,529
Judd Jessup	24,000		32,529				56,529
Jean H. Macino			71,647				71,647
Jeffrey J. Michael	16,000		43,549				50,529

27

**Table of Contents**

- (1) V. Gordon Clemons, the chairman of our board of directors, has been omitted from this table as he receives no additional compensation for serving on our board.
  
- (2) Represents the amounts of compensation expense recognized in fiscal 2008 for financial reporting purposes related to stock option awards granted in fiscal 2008 and prior fiscal years, excluding the effect of forfeiture assumptions. See Note B, Stock-Based Compensation, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K filed June 16, 2008, for the relevant assumptions used to determine the valuation of our option awards.

- (3) Aggregate option awards outstanding that have been granted under the automatic option grant program of our Restated Omnibus Incentive Plan to each of our non-employee directors as of March 31, 2008, the last day of our most recent fiscal year, are as follows:
- Mr. Hamerslag- 11,436 shares,
  - Mr. Hoops- 23,248 shares,
  - Mr. Jessup- 54,750 shares,
  - Ms. Macino- 7,500 shares,
  - and
  - Mr. Michael- 61,500 shares.

*Impact of Accounting and Tax Treatment of Compensation*

Section 162(m) of the Internal Revenue Code disallows a tax deduction to publicly held companies for compensation paid to certain of their executive officers to the extent that such compensation exceeds \$1.0 million per covered officer in any fiscal year. The limitation applies only to compensation that is not considered to be performance-based. Non-performance-based compensation paid to our executive officers during fiscal 2008 did not exceed the \$1.0 million limit per officer, and we do not expect the non-performance-based compensation to be paid to our executive officers during fiscal 2009 to exceed that limit. Because it is unlikely that the cash compensation payable to any of our executive officers in the foreseeable future will approach the \$1.0 million limit, we do not expect to take any action to limit or restructure the elements of cash compensation payable to our executive officers so as to qualify that compensation as performance-based compensation under Section 162(m). We will reconsider this decision should the individual cash compensation of any executive officer ever approach the \$1.0 million level. With respect to Mr. Starck's compensation, we agreed to certain gross up payments not to exceed \$500,000 to offset any applicable excise taxes imposed pursuant to Sections 280G and 4999 of the Internal Revenue Code of 1986, as amended

**Compensation Committee Interlocks and Insider Participation**

Messrs. Hamerslag, Hoops and Michael served as members of the Compensation Committee during fiscal year 2008. Mr. Michael is the President and Chief Executive Officer of Corstar Holdings, Inc., a beneficial owner of more than 10% of the outstanding of our Common Stock. No member of the Compensation Committee was, during fiscal 2008, an employee or officer of ours or was formerly an officer of ours.

During fiscal 2008, no current executive officer of ours 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 our Board or Compensation Committee.

**Report of the Compensation Committee of the Board of Directors**

The compensation committee of the board of directors has reviewed and discussed CorVel's compensation discussion and analysis with management. Based on this review and discussion, the compensation committee recommended to the board of directors that the compensation discussion and analysis be included in CorVel's definitive proxy statement on Schedule 14A for its 2008 annual meeting of stockholders, and be incorporated by reference in CorVel's annual report on Form 10-K for the fiscal year ended March 31, 2008, each filed with the Securities and Exchange Commission.

The foregoing report was submitted by the compensation committee of the board of directors and shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C promulgated by the Securities and Exchange Commission or to the liabilities of Section 18 of the Securities Exchange Act of 1934. Notwithstanding CorVel's incorporation of the foregoing report by reference into its Annual Report on Form 10-K, the foregoing report shall be deemed furnished in the Annual Report on Form 10-K and shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 as a result of such furnishing.

Respectfully submitted,

Steven J. Hamerslag

Alan R. Hoops

Jeffrey J. Michael



**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth certain information known to the us as of March 31, 2008, with respect to beneficial ownership of Common Stock by (i) each person (or group of affiliated persons) who is known by us to own beneficially more than 5% of the outstanding Common Stock, (ii) each director and/or nominee for director, (iii) each of our named executive officers (named under the heading Summary Compensation Table above), 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. Unless otherwise indicated, the principal address of each of the stockholders below is c/o CorVel Corporation, 2010 Main Street, Suite 600, Irvine, California 92614.

Name and Address of Beneficial Owner	Amount of Common Stock Beneficially Owned	Percentage of Common Stock Beneficially Owned (1)
<b>Jeffrey J. Michael</b> 10901 Red Circle Drive, Suite 370 Minnetonka, MN 55343	4,112,311(2)	30.1%
<b>Corstar Holdings, Inc.</b> 10901 Red Circle Drive, Suite 370 Minnetonka, MN 55343	4,050,001	29%
<b>V. Gordon Clemons</b> 2010 Main Street, Suite 600 Irvine, CA 92614	1,458,875(3)	10.6%
<b>HealthCor Management, L.P.</b> 152 West 57 <sup>th</sup> Street, 47 <sup>th</sup> Floor New York, NY 10019	1,250,000(4)	9.1%
<b>FMR Corporation</b> 82 Devonshire Street Boston, MA 02109	992,291(5)	7.2%
<b>Wellington Management Company, LLP</b> 75 State Street Boston, MA 02109	980,498(6)	7.1%
<b>R. Judd Jessup</b>	97,664(7)	*
<b>Steven J. Hamerslag</b>	54,564(8)	*
<b>Daniel J. Starck</b>	40,563(9)	*
<b>Donald C. McFarlane</b>	15,245(10)	*

<b>Scott R. McCloud</b>	13,786(11)	
<b>Alan R. Hoops</b>	11,812(12)	*
<b>Jean H. Macino</b>	0	*
<b>All current executive officers and directors as a group (9 individuals)</b>	5,854,884(13)	41.0%

\* Less than 1%

(1) Applicable percentage ownership is based on 13,792,701 shares of Common Stock outstanding as of March 31, 2008, which excludes a total of 11,687,614 shares repurchased by us in accordance with its corporate stock repurchase program and held by us

**Table of Contents**

in treasury.  
Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and generally includes voting power and/or investment power with respect to the securities held. Any securities not outstanding but which are subject to options exercisable within 60 days of March 31, 2008, are deemed outstanding and beneficially owned 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  
4,050,001  
shares owned by  
Corstar, 62,310  
shares owned  
directly by  
Mr. Michael, a  
director of ours  
and of Corstar,  
and 50,064  
shares subject to  
options held by  
Mr. Michael  
that are  
exercisable  
within 60 days  
of March 31,  
2008.

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 our  
Common Stock  
held by Corstar.  
Mr. Michael  
disclaims such  
beneficial  
ownership

except to the extent of any indirect pecuniary interest therein.

(3) Includes 1,442,000 shares owned by Mr. Clemons directly and 16,875 shares subject to options that are exercisable within 60 days of March 31, 2008.

(4) According to the Schedule 13G of HealthCor Management, L.P., ( HealthCor ) dated February 12, 2008, collectively, HealthCor, L.P., HealthCore Offshore, Ltd. And HealthCor Hybrid Offshore, Ltd. (each a Fund and together, the Funds ) are the beneficial owners of a total of 1,250,000 shares of the Common Stock of CorVel. By virtue of its position as the investment manager of the Funds, HealthCor has

shared voting and dispositive power over the shares.

HealthCor Associates, LLC is the general partner of HealthCor Management, L.P. HealthCor Group LLO is the general partner of HealthCor Capital, L.P., which is in turn the general partner of HealthCor, L.P. As the managers of HealthCor Associates, LLC, Arthur Cohen and Joseph Healey exercise both shared voting and investment power with respect to the shares.

- (5) According to the Schedule 13G of Fidelity Management & Research Company ( Fidelity ) dated February 14, 2008, 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.

- (6) According to the Schedule 13G of Wellington Management Company (Wellington) dated February 14, 2008, Wellington, in its capacity as investment advisor, has shared power to vote and dispose the shares.
- (7) Includes 54,350 shares owned directly by Mr. Jessup and 43,314 shares subject to options that are exercisable within 60 days of March 31, 2008.
- (8) Consists of 54,564 shares owned directly by Mr. Hamerslag.
- (9) Includes 2,000 shares owned directly by Mr. Starck and 38,563 shares subject to

options held by Mr. Starck that are exercisable within 60 days of March 31, 2008.

- (10) Includes 1,725 shares owned directly by Mr. McFarlane and 13,520 shares subject to options that are exercisable within 60 days of March 31, 2008.
- (11) Includes 3,938 shares owned directly by Mr. McCloud, 711 shares owned by Mr. McCloud's spouse and 9,137 shares subject to options exercisable within 60 days of March 31, 2008.
- (12) Consists of 11,812 shares subject to options held by Mr. Hoops that are exercisable within 60 days of March 31, 2008.
- (13) Includes the information set forth in notes 2, 3, 7, 8, 9, 10, 11 and 12 above.





**Table of Contents****Equity Compensation Plan Information**

The following table provides information as of March 31, 2008, with respect to the shares of our Common Stock that may be issued under our existing equity compensation plans. We have 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)
<b>Equity Compensation Plans Approved by Shareholders (1)</b>	1,030,858(2)	\$ 19.24	2,648,083(3)
<b>Equity Compensation Plans Not Approved by Shareholders</b>	0	\$ 0	0
<b>Total</b>	1,030,858	\$ 19.24	2,648,083

(1) Consists solely of the CorVel Corporation Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) and the Restated 1991 Employee Stock Purchase Plan.

(2) Excludes purchase rights accruing under our 1991 Employee Stock Purchase Plan which has a stockholder approved

reserve of 1,425,000 shares. Under the Purchase Plan, each eligible employee may purchase up to 1,000 shares of our Common Stock at semi-annual intervals on the last business day of March and September each year at a purchase price per share equal to 95% of the fair market value of a share of our Common Stock on the last day of the relevant purchase period.

- (3) Includes shares available for future issuance under the 1991 Employee Stock Purchase Plan. As of March 31, 2008, an aggregate of 265,513 shares of our Common Stock were available for issuance under the 1991 Employee Stock Purchase Plan. During the last purchase period ending March 31, 2008, 6,579 shares were purchased

and we expect approximately a similar number of shares will be subject to purchase in the current purchase period.

Share issuances under the CorVel Corporation Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) will not reduce or otherwise affect the number of shares of our Common Stock available for issuance under the 1991 Employee Stock Purchase Plan, and share issuances under the 1991 Employee Stock Purchase Plan will not reduce or otherwise affect the number of shares of our Common Stock available for issuance under the CorVel Corporation Restated Omnibus Incentive Plan (Formerly The Restated 1988

Executive Stock  
Option Plan).

**Table of Contents****CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS**

Mr. Clemons has an adult son, V. Gordon Clemons, Jr., who is currently employed by CorVel as its Vice President Enterprise Comp. V. Gordon Clemons, Jr. became an employee of CorVel in 2001 as a Product Manager, served as Director of Business Development from June 2002 to March 2006, and was promoted to Vice President of Business Development in March 2006 and subsequently promoted to Vice President, Enterprise Comp in April 2007. V. Gordon Clemons, Jr. has received a salary of \$120,681, \$125,167, \$145,627 for fiscal years 2006, 2007, and 2008 respectively. V. Gordon Clemons, Jr. also received a bonus of \$23,603, \$64,000, \$106,313 for fiscal years 2006, 2007, and 2008 respectively. V. Gordon Clemons, Jr. also received option grants for 4,125, 6,825, 10,750 shares for fiscal years 2006, 2007 and 2008, respectively, which includes an option for 6,000 shares granted on February 4, 2008, which becomes exercisable based on achievement of certain performance criteria related to revenue growth. As of March 31, 2007, Mr. Clemons held outstanding options for 28,238 shares. The grant date fair market value was \$106,789 for the option grants V. Gordon Clemons, Jr. received in fiscal 2008 and \$60,836 for the option grants V. Gordon Clemons, Jr. received in fiscal 2007. V. Gordon Clemons, Jr. received other compensation of annual premiums and matching 401(k) contributions in the aggregate amount of \$1,029 and \$764.17 for fiscal years 2008 and 2007, respectively, paid by us for the purchase of group term life insurance in an amount equal to his annual salary and as matching contributions by us to our Section 401(k) Plan. The compensation of V. Gordon Clemons, Jr. has been ratified by the audit committee.

FMR Corp. Fidelity Management Trust Company, an affiliate of FMR Corp., has provided services to us in connection with the administration of our 401(k) employee savings plan since calendar year 1993. During calendar years 2000, 2001, 2002, 2003, 2004, 2005, 2006, and 2007 the total amount of fees charged to CorVel for these services was approximately \$80,493, \$86,514, \$85,223, \$71,976, \$62,900, \$33,570, and \$36,655, and \$33,772 respectively. In addition, during calendar years 2000, 2001, 2002, 2003, 2004, 2005, 2006, and 2007 our employees who participated in the 401(k) plan paid Fidelity \$5,563, \$6,548, \$6910, \$8049, \$11,684, \$23,900, \$26,090, \$23,744, and \$26,671 respectively, for asset management and plan administration services. Prior to 2000, payments to FMR Corp. did not exceed \$60,000 in any fiscal year. Based on its holdings reported on a Schedule 13G filed on February 14, 2008, FMR Corp. beneficially owned 7.2% of our common stock as of December 31, 2007, and has historically beneficially owned greater than 5% of our common stock. The Audit Committee has reviewed FMR Corp. s stock ownership position in CorVel and has concluded that such ownership position does not currently have and is not expected to have a bearing on CorVel s relationship with Fidelity Management Trust Company.

Since the beginning of fiscal year 2008, other than as described above and as described under the heading Compensation Discussion and Analysis, there has not been, nor has there been proposed, any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships, including those involving indebtedness not in the ordinary course of business, to which we or our subsidiaries were or are a party, or in which we or our subsidiaries were or are a participant, in which the amount involved exceeded or exceeds \$120,000 and in which any of our directors, nominees for director, executive officers, beneficial owners of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest. Each of the transactions described above was reviewed and approved or ratified by our Audit Committee.

**Policies and Procedures for Related Person Transactions**

Under Item 404 of SEC Regulation S-K , a related person transaction is any actual or proposed transaction, arrangement or relationship or series of similar transactions, arrangements or relationships, including those involving indebtedness not in the ordinary course of business, since the beginning of our last fiscal year, to which we or our subsidiaries were or are a party, or in which we or our subsidiaries were or are a participant, in which the amount involved exceeded or exceeds \$120,000 and in which any of our directors, nominees for director, executive officers, beneficial owners of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest.

Pursuant to its written charter, our Audit Committee is responsible for reviewing and approving all related person transactions and potential conflict of interest situations involving any of our directors, nominees for director, executive officers, beneficial owners of more than 5% of any class of our voting securities, or any member of the immediate

family of any of the foregoing persons.

Our Audit Committee also has adopted written policies and procedures for related person transactions that require the Audit Committee to review any proposed transaction with related persons to determine if it rises to the level of a related person transaction covered by Item 404 of Regulation S-K and, if it does, then such related person transaction must be approved or ratified by the disinterested members of the Audit Committee. Our management must disclose to the Audit Committee all material information regarding actual and proposed related person transactions known to them that involve our directors, nominees for director, executive officers, persons known to be five percent or greater beneficial owners of our stock, and any member of the immediate family of any of the foregoing persons. A related person will not be deemed to have a material interest in a transaction if the interest arises only: (a) from the person's position as a director of another corporation or organization that is a party to the transaction; or (b) from the direct or indirect ownership by such person and all other related persons, in the aggregate, of less than

**Table of Contents**

a ten percent equity interest in another person or entity (other than a partnership) which is a party to the transaction; or (c) from a combination of both (a) and (b); or (d) from the person's position as a limited partner in a partnership in which the person and all other related persons, have an interest of less than ten percent, and the person is not a general partner of and does not hold another position in the partnership.

Our Audit Committee has determined that the following categories of transactions shall be deemed preapproved by the Audit Committee, notwithstanding the fact that they are related person transactions:

compensation to executive officers determined by our Compensation Committee;

compensation to directors determined by our Compensation Committee or our Board; and

transactions in which all security holders receive proportional benefits.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 (the "1934 Act"), as amended, requires our officers and directors, and persons who own more than 10% of a registered class of our 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 us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms received by us, we believe that, during fiscal year 2008, all transactions required to be reported by our officers, directors and greater than 10% beneficial owners were reported in a timely manner.

**ANNUAL REPORT ON FORM 10-K AND STOCKHOLDER PROPOSALS  
FOR THE 2009 ANNUAL MEETING**

We filed with the Securities and Exchange Commission an Annual Report on Form 10-K on June 16, 2008. A copy of the Annual Report on our Form 10-K for the fiscal year ended March 31, 2008, has been mailed concurrently with this Proxy Statement to stockholders entitled to notice of and to vote at the Annual Meeting. No separate annual report to the stockholders was prepared. The Annual Report sent to stockholders is not incorporated into this Proxy Statement and is not considered soliciting material. Our Annual Report on Form 10-K, as well as certain other reports, proxy statements and other information regarding us, are available on the Securities and Exchange Commission's Web site at <http://www.sec.gov>. In addition, we will provide without charge a copy of our Annual Report on Form 10-K to any stockholder upon written request addressed to our corporate Secretary, CorVel Corporation, 2010 Main Street, Suite 600, Irvine, California 92614, and will furnish upon request any exhibits to the Form 10-K upon the payment by the requesting stockholder of our reasonable expenses in furnishing such exhibits.

Stockholders may present proposals for action at a future meeting only if they comply with the requirements of the proxy rules established by the SEC and our Bylaws. Stockholder proposals must be in writing addressed to our corporate Secretary, CorVel Corporation, 2010 Main Street, Suite 600, Irvine, California 92614. It is recommended that stockholders submitting proposals utilize certified mail, return receipt requested in order to provide proof of timely receipt. Stockholder proposals that are intended to be presented by such stockholders at our 2009 annual meeting and that such stockholders desire to have included in our proxy materials relating to the 2009 annual meeting must be received by us no later than March 12, 2009, which is 120 calendar days prior to the anniversary of the mailing date for this year's proxy materials. All stockholder proposals must be in compliance with applicable laws and regulations.

Stockholders are also advised to review our Bylaws which contain additional advance notice requirements with respect to stockholder proposals. Under our current Bylaws, if a stockholder wishes to present a proposal at our 2009 annual meeting and the proposal is not intended to be included in our proxy statement relating to the 2009 annual meeting, the stockholder must give notice of the proposal to us not later than May 18, 2009, which is 90 days prior to the anniversary date of the 2008 Annual Meeting. If a stockholder gives notice of such proposal after this deadline, the stockholder will not be permitted to present the proposal to the stockholders for a vote at the meeting. All stockholder proposals must be in the form required by our Bylaws. If a stockholder gives notice of a proposal after May 26, 2009, which is the 45th calendar day prior to the anniversary of the mailing date for this year's proxy materials, our proxy holders will be allowed to use their discretionary voting authority to vote the shares they represent as the Board may



recommend, which may include a vote against the stockholder proposal when and if the proposal is raised at our 2009 annual meeting. We have not been notified by any stockholder of his or her intent to present a stockholder proposal from the floor of the 2008 Annual Meeting. The enclosed Proxy grants the proxy holders discretionary authority to vote on any matter properly brought before the 2008 Annual Meeting.

**Table of Contents**

**COSTS OF SOLICITATION**

Proxies will be solicited by mail and by telephone, facsimile, electronic or any other means, by our regular employees without additional remuneration. We will request banks, brokerage houses and other institutions to forward the soliciting material to persons for whom they hold shares. We will reimburse banks, brokerage houses and other institutions for their reasonable expenses in forwarding our proxy materials to beneficial owners of our Common Stock. All costs associated with the solicitation of proxies, including the preparation, printing and mailing of this proxy statement, the proxy and any additional solicitation materials furnished to the stockholders, will be borne by us. We may retain a proxy solicitor to assist in the distribution of proxies and proxy solicitation materials, and in the solicitation of proxies. Generally, the fee for such services is approximately \$15,000 plus expenses. If so, we will pay the proxy solicitor reasonable and customary fees. Except as described above, we do not presently intend to solicit proxies other than by mail.

By Order of the Board of Directors

/s/ RICHARD J. SCHWEPPE

Richard J. Schweppe

Secretary

July 11, 2008

Irvine, California

**Table of Contents**

**APPENDIX A  
CORVEL CORPORATION  
RESTATED OMNIBUS INCENTIVE PLAN  
(FORMERLY THE RESTATED 1988 EXECUTIVE STOCK OPTION PLAN)  
AS AMENDED AND RESTATED THROUGH MAY 6, 2008**

**ARTICLE I  
GENERAL**

**I. GENERAL PROVISIONS**

**A.** The Plan is intended to promote the interests of the Company and its stockholders by providing a method whereby (i) key employees (including officers and directors) of the Company (or any Parent or Subsidiary) responsible for the management, growth and financial success of the Company (or any Parent or Subsidiary), (ii) the non-employee members of the Board or the board of directors of any Parent or Subsidiary, and (iii) consultants and advisors who provide valuable services to the Company (or any Parent or Subsidiary) may be offered various types of equity incentives and rewards intended to encourage such individuals to put forth maximum efforts for the success of the Company's business and to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Company, thereby aligning the interests of such persons with the Company's stockholders.

**B.** For purposes of the Plan, the following definitions shall be in effect:

**AFFILIATE:** Any entity (i) that, directly or indirectly through one or more intermediaries, is controlled by the Company or (ii) in which the Company has a significant equity interest, in each case as determined by the Committee.

**AWARD:** Any Option, Tandem Right, Limited Right, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award, Dividend Equivalent, or Other Stock-Based Award granted under the Plan.

**AWARD AGREEMENT:** Any written agreement, contract or other instrument or document evidencing any Award granted under the Plan. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

**BOARD:** The Board of Directors of the Company.

**CHANGE IN CONTROL:** A Change in Control shall be deemed to occur in the event that:

(i) any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer which the Board does not recommend the Company's stockholders to accept; or

(ii) there is a change in the composition of the Board over a period of twenty-four (24) consecutive months or less for purposes of the terms set forth in Article III, or over a period of twelve (12) consecutive months for all other purposes under the Plan, such that a majority of the Board members (rounded up to the next whole number) cease, by reason of one or more proxy contests for the election of Board members, to be comprised of individuals who either (a) have been Board members continuously since the beginning of such period or (b) have been elected or nominated for election as Board members during such period by at least two-thirds of the Board members described in clause (a) who were still in office at the time such election or nomination was approved by the Board.

**CODE:** The Internal Revenue Code of 1986, as amended.

**COMMON STOCK:** The Common Stock issuable under the Plan shall be shares of the Company's common stock, \$0.0001 par value.

**COMMITTEE:** The Committee shall be a committee designated by the Board to administer the Plan, which initially shall be the compensation committee of the Board. The Committee shall be comprised of at least two Directors but not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3 and Section 162(m)

**Table of Contents**

of the Code, and each member of the Committee shall be a *Non-Employee Director* and an *Outside Director*.

**COMPANY:** The Company shall mean CorVel Corporation, a Delaware corporation 1, or any corporate successor which shall assume the Plan.

**CORPORATE TRANSACTION:** A Corporate Transaction shall include any of the following transactions for which the approval of the Company's stockholders is obtained:

(i) a merger or acquisition in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state of the Company's incorporation,

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company to any entity other than a parent or subsidiary of the Company, or

(iii) any reverse merger in which the Company is the surviving entity but in which fifty percent (50%) or more of the Company's outstanding voting stock is transferred to holders different from those who held such fifty percent (50%) or greater interest immediately prior to such merger.

**DIRECTOR:** A member of the Board, including any Non-Employee Director.

**DIVIDEND EQUIVALENT:** Any right granted under Section IV of Article IV of the Plan.

**ELIGIBLE DIRECTOR:** An Eligible Director is defined in Section I.A. of Article III.

**ELIGIBLE PERSON:** (i) Any Employee, officer, consultant, or advisor providing services to the Company (or any Parent or Subsidiary), and (ii) any Director or director of any Parent or Subsidiary who is not an employee of the Company or any Parent or Subsidiary.

**EMPLOYEE:** An individual shall be considered to be an Employee for so long as the Company or one or more of its Parent or Subsidiaries reports his or her earnings on a Form W-2.

**EXCHANGE ACT:** The Securities Exchange Act of 1934, as amended.

**FAIR MARKET VALUE:** The Fair Market Value per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time listed on the Nasdaq National Market or the Nasdaq Capital Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported by the National Association of Securities Dealers on the Nasdaq National Market or the Nasdaq Capital Market and published in The Wall Street Journal.

(ii) If the Common Stock is at the time listed on any stock exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the stock exchange determined by the Committee to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange and published in The Wall Street Journal.

(iii) If the Common Stock is not listed on the Nasdaq National Market, Nasdaq Capital Market or a national securities exchange, the Fair Market Value shall be the average of the closing bid and ask prices of the Common Stock on that day as reported by the Nasdaq bulletin board or any comparable system on that day.

(iv) If the Common Stock is not traded included in the Nasdaq bulletin board or any comparable system, the Fair

1 The Company was previously known as FORTIS Corporation and assumed all of the rights and responsibilities of FORTIS Corporation, a Minnesota corporation ( FORTIS

Minnesota ),  
with respect to  
the Plan  
pursuant to the  
Agreement and  
Plan of Merger  
by and between  
the Company  
and FORTIS  
Minnesota,  
effective  
May 16, 1991,  
under which  
FORTIS  
Minnesota  
changed its state  
of incorporation  
from Minnesota  
to Delaware by  
merging with  
and into the  
Company which  
was a wholly  
owned  
subsidiary of  
FORTIS  
Minnesota.

**Table of Contents**

Market Value shall be the average of the closing bid and ask prices on that day as furnished by any member of the National Association of Securities Dealers, Inc. selected from time to time by the Company for that purpose.

(v) If the date in question is not a trading day, then the Fair Market Value shall be determined based on prices for the trading day prior to the date in question.

**HOSTILE TAKE-OVER**: A Hostile Take-Over shall be the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders which the Board does not recommend such stockholders to accept.

**NON-EMPLOYEE DIRECTOR**. Any Director who is not also an employee of the Company or a Parent or Subsidiary within the meaning of Rule 16b-3 and is an outside director within the meaning of Section 162(m) of the Code.

**NON-STATUTORY OPTION**: A Non-Statutory Option shall mean an option not intended to satisfy the requirements of Code Section 422.

**OPTION**: A Non-Statutory Option.

**OTHER STOCK-BASED AWARD**: Any right granted under Section V of Article IV of the Plan.

**OPTIONEE**: Any person to whom an option is granted under the Discretionary Option Grant Program of Article II, the Automatic Option Grant Program of Article III, or the Other Equity Based Awards Program of Article IV of this Plan.

**PARENT**: A corporation shall be deemed to be a Parent of the Company if it is a corporation (other than the Company) in an unbroken chain of corporations ending with the Company, provided each such corporation in the unbroken chain (other than the Company) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

**PARTICIPANT**: An Eligible Person granted an Award under the Plan.

**PERFORMANCE AWARD**: Any right granted under Section III of Article IV of the Plan.

**PERFORMANCE GOAL**: Performance Goal shall have the meaning set forth in Section III.A.(i) of Article IV of the Plan.

**PERMANENT DISABILITY**: A permanent disability shall have the meaning assigned to it in Code Section 22(e)(3).

**PERSON**: Any individual or entity, including a corporation, partnership, limited liability company, association, joint venture or trust.

**PLAN**: The CorVel Corporation Restated Omnibus Incentive Plan, which was formerly named the Restated 1988 Executive Stock Option Plan, as amended and restated.

**QUALIFIED PERFORMANCE BASED AWARD**: A Qualified Performance Based Award shall have the meaning set forth in Section III.A. of Article IV of the Plan.

**RESTRICTED STOCK**: Any Share granted under Section II of Article IV of the Plan.

**RESTRICTED STOCK UNIT**: Any unit granted under Section II of Article IV of the Plan.

**RULE 16b-3**: Rule 16b-3 promulgated by the SEC under the Exchange Act or any successor rule or regulation.

**SECURITIES ACT**: Securities Act of 1933, as amended.

**Table of Contents**

**SEC:** The SEC shall mean the Securities and Exchange Commission.

**SECTION 16(b) INSIDER:** An individual shall be considered to be a Section 16(b) Insider on any relevant date under the Plan if such individual is at the time subject to the short-swing profit restrictions of Section 16(b) of the Exchange Act by reason of his or her affiliation with the Company.

**SERVICE PROVIDER:** An individual shall be deemed to be a Service Provider for so long as such individual renders service on a periodic basis to the Company, its Parent and/or any of its Subsidiaries as an Employee, a non-Employee member of the board of directors or a consultant or independent advisor.

**SHARE OR SHARES:** A Share or Shares of Common Stock or such other securities or property as may become subject to Awards pursuant to an adjustment made pursuant to Section V.C. of Article I of the Plan.

**STOCK APPRECIATION RIGHT:** Any right granted under Section I of Article IV of the Plan.

**SUBSIDIARY:** A corporation shall be deemed to be a Subsidiary of the Company if it is one of the corporations (other than the Company) in an unbroken chain of corporations beginning with the Company, provided each such corporation (other than the last corporation in the unbroken chain) owns, at the time of determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. For purposes of all Non-Statutory Option grants, all other Awards granted under Article IV of the Plan, and all Corporate Transaction provisions of the Plan, the term Subsidiary shall also include any partnership, joint venture or other business entity of which the Company owns, directly or indirectly through another entity, more than a fifty percent (50%) interest in voting power, capital or profits.

**TANDEM RIGHT:** Any tandem stock appreciation right granted under Section II of Article II of the Plan.

**10% STOCKHOLDER:** A 10% Stockholder is the owner of stock possessing 10% or more of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary.

(i) The individual is treated as owning any stock owned, directly or indirectly, by:

(a) His or her brothers and sisters (whether by whole or half-blood);

(b) His or her spouse; and

(c) His or her lineal descendants and/or ancestors.

(ii) Stock owned, directly or indirectly, by a corporation, partnership, estate, or trust is treated as owned proportionately by or for its stockholders, partners, or beneficiaries.

C. Stock option grants made to any Participant under the Discretionary Option Grant Program of Article II and Awards made to any Participant under the Other Equity Based Awards Program of Article IV shall not in any way affect, limit or restrict such individual's eligibility to participate in any other stock plan or other compensation or benefit plan, arrangement or practice now or hereafter maintained by the Company or any Parent or Subsidiary.

D. Stock option grants or other Awards outstanding under the Plan shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

**II. STRUCTURE OF THE PLAN**

A. **Stock Programs.** The Plan shall be divided into three separate components: the Discretionary Option Grant Program specified in Article II, the Automatic Option Grant Program specified in Article III, and the Other Equity Based Awards Program specified in Article IV. Under the Discretionary Option Grant Program, Eligible Persons (except as otherwise limited by Section I.B. of Article III) may, at the discretion of the Committee, be granted options to purchase shares of Common Stock in accordance with the provisions of Article II. Under the Automatic Option Grant Program, Eligible Directors will receive at periodic intervals special option grants to purchase shares of Common Stock in accordance with the provisions of Article III. Under the Other Equity Based Awards Program, Eligible Persons (except as otherwise limited by Section I.B. of Article III) may be granted, at the discretion of the Committee, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Awards, Dividend Equivalents or Other Stock-Based Awards in accordance with the provisions of Article IV.

**Table of Contents**

B. **General Provisions.** Unless the context clearly indicates otherwise, the provisions of Articles I and V shall apply to the Discretionary Option Grant Program, the Automatic Option Grant Program and the Other Equity Based Awards Program, and shall accordingly govern the interests of all individuals under the Plan.

**III. ADMINISTRATION OF THE PLAN**

A. The Plan shall be administered by the Committee. The Committee may delegate its responsibilities to others under such conditions and limitations as it may determine, except that the Committee may not delegate its authority with regard to the making of grants to Section 16(b) Insiders. However, if the grant to a Section 16(b) Insider would not be exempt under SEC Rule 16b-3 if made by the Committee, such grant may be made by the Board. On the other hand, if the grant of an option is intended to be exempt from Code Section 162(m), it must be made by a committee composed exclusively of outside directors, as that term is defined in Code Section 162(m).

B. Subject to the express provisions of the Plan and applicable law, the Committee shall have the sole and exclusive authority with respect to the Discretionary Option Grant Program and the Other Equity Based Awards Program:

- (i) to designate Participants and make grants of Awards to any and all Eligible Persons;
- (ii) to determine the type or types of Awards to be granted to each Participant;
- (iii) to determine the number of Shares to be covered by, or the method by which payment or other rights are to be determined in connection with, each Award;
- (iv) to determine the terms and conditions of any Award or Award Agreement, consistent with the terms of the Plan;
- (v) to determine whether, to what extent, and under what circumstances Awards may be exercised in cash, Shares, promissory notes (provided, however, that the par value of any Shares to be issued pursuant to such exercise shall be paid in the form of cash, services rendered, personal property, real property or a combination thereof, and the acceptance of such promissory notes does not conflict with Section 402 of the Sarbanes-Oxley Act of 2002), other securities, other awards or other property, or cancelled, forfeited or suspended;
- (vi) to interpret the Plan and any Award Agreement, to prescribe, amend and rescind rules and regulations relating to it, and to make all other determinations deemed necessary or advisable in administering the Discretionary Option Grant Program and the Other Equity Based Awards Program;
- (vii) to change the terms and conditions or accelerate the vesting of any outstanding Award or Award Agreement granted pursuant to Article II, and any outstanding Award or Award Agreement granted pursuant to Article IV (except for any Qualified Performance Based Award as defined in Article IV of the Plan to the extent such authority would violate Code Section 162(m)), provided such action does not, without the consent of the holder, adversely affect the rights and obligations such individual may have under the outstanding grant; and
- (viii) to make any other determination or take any other action that the Committee deems necessary or desirable for the administration of the Plan.

C. Administration of the Automatic Option Grant Program shall be self-executing in accordance with the express terms and conditions of Article III, and neither the Committee nor the Board shall exercise discretionary functions with respect to option grants made pursuant to that program.

D. Except as otherwise provided in Section III.C. of this Article I, designations, determinations, interpretations and other decisions of the Committee on all matters relating to the Plan and any option grants, stock issuances or any other Awards made hereunder shall be within the sole discretion of the Committee, may be made at any time, and shall be final, conclusive and binding on all Persons having any interest in the Plan or any options or Awards granted or shares issued under the Plan.

E. To the maximum extent permitted by law, the Company shall indemnify each member of the Committee and any secondary committee formed pursuant to Section III.A. of this Article I and every other member of the Board, as well as any other employee with duties under the Plan, against all liabilities and expenses (including any amount paid in settlement or in satisfaction of a judgment) reasonably incurred by the individual in connection with any claims against the individual by reason of the performance of the individual's duties under the Plan. This indemnity shall not apply, however, if: (i) it is determined in the action, lawsuit, or proceeding that the individual is guilty of gross negligence or intentional misconduct in the performance of those duties; or (ii) the individual fails to assist the Company in defending against any such claim. The Company shall have the





**Table of Contents**

right to select counsel and to control the prosecution or defense of the suit. The Company shall not be obligated to indemnify any individual for any amount incurred through any settlement or compromise of any action unless the Company consents in writing to the settlement or compromise.

F. Notwithstanding anything to the contrary contained herein (except as provided in Section III.A. of this Article I), the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan.

**IV. ELIGIBILITY**

A. The persons eligible to receive option grants under the Discretionary Option Grant Program of Article II and Awards under the Other Equity Based Awards Program of Article IV are Eligible Persons selected by the Committee to receive such options and Awards, except as otherwise limited by Section I.B. of Article III of the Plan.

B. The persons entitled to receive option grants under the Automatic Option Grant Program of Article III are the Eligible Directors, as defined in Section I.A. of Article III of the Plan.

**V. STOCK SUBJECT TO THE PLAN**

A. The Common Stock issuable under the Plan shall be made available either from authorized but unissued shares of Common Stock or from shares of Common Stock reacquired by the Company on the open market. The aggregate number of shares of Common Stock issuable over the term of this Plan shall not exceed 9,682,500 shares. Such share reserve is subject to adjustment from time to time in accordance with Section V.C. of this Article I.

B. Should an option or other Award granted under this Plan expire or terminate for any reason prior to exercise or surrender in full, the shares subject to the portion of the option or other Award not so exercised or surrendered shall be available for subsequent option or other Award grants under this Plan. In addition, unvested shares issued under the Plan and subsequently cancelled or repurchased by the Company, at the original option or Award exercise price paid per share, pursuant to the Company's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent option or other Award grants under the Plan. However, shares subject to Tandem Rights exercised in accordance with the provisions of Section II of Article II shall reduce on a share-for-share basis the number of shares of Common Stock available for subsequent option or other Award grants under this Plan. Should the exercise price of an outstanding option or other Award under the Plan be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan be withheld by the Company in satisfaction of the withholding taxes incurred in connection with the exercise of an outstanding option or other Award or the vesting of a stock issuance or other Award under the Plan, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option or other Award is exercised or which vest under the stock issuance or other Award, and not by the net number of shares of Common Stock actually issued to the Participant.

C. In the event any change is made to the Common Stock issuable under the Plan by reason of any stock dividend, recapitalization, stock split, reverse stock split, combination of shares, exchange of shares, reorganization, merger, consolidation, split-up, spin-off, or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration, then appropriate adjustments shall be made by the Committee to (i) the aggregate number and/or class of securities (or other property) issuable under the Plan, (ii) the maximum number and/or class of securities (or other property) for which any one Participant may be granted stock options, stock appreciation rights or other Awards over the term of the Plan, (iii) the number and/or class of securities for which automatic option grants are to be subsequently made to Eligible Directors under the Automatic Option Grant Program, (iv) the number and/or class of securities (or other property) subject to, and the purchase and/or exercise price per share in effect under, each option, stock appreciation right or other Award outstanding under the Plan, and (v) the limitations contained in Section V.E. of this Article I, in order to preclude the dilution or enlargement of benefits thereunder. All adjustments made by the Committee pursuant to this Section V.C. shall be final and binding.

D. In the event that (i) the Company is the surviving entity in any Corporate Transaction which does not result in the termination of outstanding options pursuant to the Corporate Transaction provisions of the Plan or (ii) the outstanding options under the Plan are to be assumed in connection with such Corporate Transaction, then each such continuing or assumed option shall, immediately after such Corporate Transaction, be appropriately adjusted to apply and pertain to

the number and class of securities which would have been issuable, in consummation of such Corporate Transaction, to an actual holder of the same number of shares of Common Stock as are subject to such option immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the exercise price payable per share, provided the aggregate option price shall remain the same. In addition, the number and class of securities which remain issuable under this Plan following the consummation of the Corporate Transaction shall be appropriately adjusted. Adjustments under this section will be made in accordance with Code Section 424 and treasury regulations promulgated thereunder to the extent required, and for purposes of compliance with the provisions of

**Table of Contents**

Code Section 409A relating to modification of stock rights, adjustments will be made in accordance with the requirements Code Section 424 and treasury regulations promulgated thereunder as modified by applicable guidance under Code Section 409A.

E. 162(m) Limitation on Awards. From and after January 1, 1994 until June 30, 2006, in no event may any one individual participating in the Plan be granted stock options and/or separately exercisable stock appreciation rights, exceeding 1,600,000 shares of Common Stock in the aggregate over such period, subject to adjustment from time to time in accordance with the provisions of Section V.C. of this Article. From and after approval of the stockholders at the 2006 Annual Meeting of Stockholders, notwithstanding any other provision of the Plan other than Section V.C. of this Article I, no Participant shall be granted: (i) Options or SARs, the value of which are derived solely from the appreciation in the value of Shares after the date of grant, with respect to more than 500,000 Shares in the aggregate within any fiscal year of the Company; or (ii) other Qualified Performance Based Awards under Article IV that do not meet the definition contained in clause (i) above and that could result in such Participant receiving more than \$1,500,000 in cash or the equivalent Fair Market Value of Shares determined at the date of grant for each full or partial fiscal year of the Company contained in the performance period of a particular Qualified Performance Based Award, provided, however, that, if any other Qualified Performance Based Awards are outstanding for such Participant for a given fiscal year, such dollar limitation shall be reduced for each such given fiscal year by the amount that could be received by the Participant under all such Qualified Performance Based Awards, divided, for each such Qualified Performance Based Award, by the number of full or partial fiscal years of the Company contained in the performance period of each such outstanding Qualified Performance Based Award; provided, however, that the limitations set forth in this Section V.E. shall be subject to adjustment under Section V.C. of Article I only to the extent that such adjustment does not affect the status of any Award intended under Article IV to qualify as performance based compensation under Section 162(m) of the Code.

**ARTICLE II.**

**DISCRETIONARY OPTION GRANT PROGRAM**

**I. TERMS AND CONDITIONS OF OPTIONS**

A. The Committee shall have sole and exclusive authority (subject to the express provisions of the Plan) to determine which Eligible Persons are to be granted options under the Discretionary Option Grant Program, the number of shares to be covered by each such option, the status of the granted option as a Non-Statutory Option, the time or times at which such option is to become exercisable and the maximum term for which the option is to remain outstanding.

B. The granted options shall be evidenced by Award Agreements in such form as the Committee shall from time to time approve. Unless otherwise provided in a particular Award Agreement, the granted options shall comply with the terms and conditions specified below.

**1. Option Price.**

a. The option price per share shall be fixed by the Committee, but in no event shall the option price per share be less than the Fair Market Value per share of Common Stock on the date of the option grant.

b. The option price shall become immediately due upon exercise of the option and shall, subject to the loan provisions of Section I of Article V, be payable in one or more of the alternative forms specified below:

i. full payment in cash or check payable to the Company's order; or

ii. full payment in shares of Common Stock held by the Optionee for the requisite period necessary to avoid a charge to the Company's reported earnings and valued at Fair Market Value on the Exercise Date (as such term is defined below); or

iii. to the extent the option is exercised for vested shares, full payment through a special sale and remittance procedure pursuant to which the Optionee is to provide irrevocable written instructions (i) to a brokerage firm to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds available on the settlement date, an amount sufficient to cover the aggregate option price payable for the purchased shares plus all applicable Federal and state income and employment taxes required to be withheld by the Company by reason of such purchase and (ii) to the Company to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction; or

c. If payment of the exercise price is made by means of the surrender of shares of Common Stock which are subject to certain restrictions, the number of shares of Common Stock issued upon the exercise of the option equal to the number of shares of restricted stock surrendered shall be subject to the same restrictions as the restricted stock that was surrendered.

**Table of Contents**

d. The Exercise Date shall be the date on which written or electronic notice of the option exercise is delivered to the Company. Except to the extent the sale and remittance procedure specified in clause (iii) of subparagraph b. above is utilized in connection with the option exercise, payment of the option price for the purchased shares must accompany such notice.

2. Term and Exercise of Options.

a. Each option granted under the Discretionary Option Grant Program shall be exercisable in one or more installments as shall be determined by the Committee and set forth in the Award Agreement evidencing such option; provided, however, no such option shall have a maximum term in excess of ten (10) years from the date it was granted to the Optionee.

b. During the lifetime of the Optionee, Non-Statutory Options shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will, by the laws of descent and distribution following the Optionee's death, or to any Family Member (as such term is defined in the General Instructions to Form S-8 (or any successor to such Instructions or such Form) under the Securities Act), provided that the Participant may not receive any consideration for such transfer, the Family Member may not make any subsequent transfers other than by will or by the laws of descent and distribution and the Company receives written notice of such transfer. This assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Committee may deem appropriate. Notwithstanding the foregoing, the Optionee may also designate one or more persons as the beneficiary or beneficiaries of his or her outstanding Non-Statutory Options under the Plan, and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee's death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Optionee's death.

3. Termination of Service.

a. Should an Optionee cease to be a Service Provider for any reason (including death or Permanent Disability) other than due to a termination for the reasons set forth in subparagraph (c) below, then such options shall not be exercisable at any time after the EARLIER of (i) the specified expiration date of the option term or (ii) the expiration of the limited period of time specified by the Committee in the option agreement. Each such option shall, during such period following cessation of Service Provider status, be exercisable only to the extent of the number of shares (if any) in which the Optionee is vested on the date of such cessation of Service Provider status.

b. Any option held by an Optionee under this Article II at the time of his or her death and exercisable in whole or in part at that time may be subsequently exercised, but only to the extent of the number of shares (if any) in which the Optionee is vested on the date the Optionee ceases to be a Service Provider (less any of those shares subsequently purchased by the Optionee prior to death), by the personal representative of the Optionee's estate, by the person or persons to whom the option is transferred pursuant to the Optionee's will or the laws of inheritance or by the Optionee's designated beneficiary or beneficiaries of that option. Any such exercise must occur prior to the EARLIER of (i) the expiration date of the option term or (ii) the first anniversary of the date of the Optionee's death.

c. If an Optionee's Service Provider status is terminated for any of the following reasons, then all outstanding options granted the Optionee under this Article II shall immediately terminate and cease to be exercisable immediately upon such termination:

i. the Optionee's intentional misconduct or continuing gross neglect of duties which materially and adversely affects the business and operations of the Company or any Parent or Subsidiary employing the Optionee;

ii. the Optionee's unauthorized use or disclosure (or attempt thereat) of confidential information or trade secrets of the Company or any Parent or Subsidiary; or

iii. the Optionee's commission of an act involving embezzlement, theft, fraud, falsification of records, destruction of property or commission of a crime or other offense involving money or other property of the Company or any Parent or Subsidiary employing the Optionee.

The reasons for termination of an Optionee as a Service Provider set forth in this subparagraph (c) are not intended to be an exclusive list of all acts or omissions which the Company may deem to constitute misconduct or other grounds for terminating the Optionee (or any other individual).

**Table of Contents**

d. The Committee shall have complete discretion, exercisable either at the time the option is granted or at any time while the option remains outstanding, to permit one or more options held by the Optionee under this Article II to be exercised, during the limited period of exercisability following cessation of Service Provider status, not only with respect to the number of shares in which the Optionee is vested at the time of such cessation of Service Provider status but also with respect to one or more subsequent installments of purchasable shares in which the Optionee would otherwise have vested had the Optionee continued as a Service Provider.

e. If the option is granted to an individual who is not an Employee of the Company, then the option agreement evidencing the granted option shall include provisions comparable to those set forth in subparagraphs (a), (b) and (c) above, and may include provisions comparable to subparagraph (d) above, with respect to the Optionee's termination of service with the Company or any Parent or Subsidiary.

4. **Stockholder Rights.** An option holder shall have none of the rights of a stockholder with respect to any shares covered by the option until such individual shall have exercised the option, paid the option price and satisfied all other conditions precedent to the issuance of certificates for the purchased shares.

5. **Repurchase Rights.** The shares of Common Stock acquired upon the exercise of any Article II option grant may be subject to one or more repurchase rights of the Company in accordance with the following provisions:

a. The Committee shall have the discretion to authorize the issuance of unvested shares of Common Stock under this Article II. Should the Optionee cease Service Provider status while holding such unvested shares, the Company shall have the right to repurchase any or all of those unvested shares at the option price paid per share. The terms and conditions upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Committee and set forth in the instrument evidencing such repurchase right.

b. All of the Company's outstanding repurchase rights shall automatically terminate, and all shares subject to such terminated rights shall immediately vest in full, upon the occurrence of any Corporate Transaction, except to the extent: (i) any such repurchase right is expressly assigned to the successor corporation (or parent thereof) in connection with the Corporate Transaction or (ii) such termination is precluded by other limitations imposed by the Committee at the time the repurchase right is issued.

c. The Committee shall have the discretionary authority, exercisable either before or after the Optionee's cessation of Service Provider status, to cancel the Company's outstanding repurchase rights with respect to one or more shares purchased or purchasable by the Optionee under this Article II and thereby accelerate the vesting of such shares in whole or in part at any time.

**II. TANDEM RIGHTS AND LIMITED RIGHTS**

A. The Committee shall have full power and authority, exercisable in its sole discretion, to grant selected Optionees tandem stock appreciation rights ( Tandem Rights ) pertaining to all or part of the shares of Common Stock subject to one or more of their option grants under this Article II.

B. Tandem Rights may be granted at the same time the underlying option is granted or any time thereafter while the option remains outstanding. The Optionee may exercise such Tandem Right by surrendering the underlying option in whole or in part to the Company, to the extent such option is at the time exercisable for vested shares of Common Stock. In exchange for the surrendered option, the Optionee shall receive a distribution from the Company in an amount equal to the excess of (i) the Fair Market Value (on the option surrender date) of the number of shares in which the Optionee is at the time vested under the surrendered option (or surrendered portion) over (ii) the aggregate option price payable for such vested shares. However, the exercise of the Tandem Right shall be effective only if approved by the Committee. If so approved, the distribution to which the Optionee shall accordingly become entitled with respect to the surrendered option shall be made in shares of Common Stock valued at Fair Market Value on the option surrender date.

C. If the surrender of an option is rejected by the Committee, then the Optionee shall retain whatever rights the Optionee had under the surrendered option (or surrendered portion) on the option surrender date and may exercise such rights at any time prior to the last day on which the option is otherwise exercisable in accordance with the terms of the instrument evidencing such option, but in no event may such rights be exercised more than ten (10) years after the date of the option grant.





**Table of Contents**

D. Prior to July 1, 2006, one or more Section 16(b) Insiders may, in the Committee's sole discretion, be granted limited stock appreciation rights ( Limited Rights<sup>2</sup>) in conjunction with their outstanding options under this Article II. Such Limited Rights shall provide that upon the occurrence of a Hostile Take-Over, each outstanding option with such a Limited Right shall automatically be cancelled, to the extent such option is at the time exercisable for fully-vested shares of Common Stock. The Optionee shall in return be entitled to a cash distribution from the Company in an amount equal to the excess of (i) the Take-Over Price of the vested shares of Common Stock at the time subject to the cancelled option (or cancelled portion of such option) over (ii) the aggregate exercise price payable for such shares. The cash distribution payable upon such cancellation shall be made within five (5) days following the consummation of the Hostile Take-Over. The Committee shall pre-approve, at the time the limited right is granted, the subsequent exercise of that right in accordance with the terms of this Section II.D. Accordingly, no further approval of the Committee or the Board shall be required at the time of the actual option cancellation and cash distribution. The balance of the option (if any) shall continue to remain outstanding and exercisable in accordance with the terms and conditions of the instrument evidencing such option.

**III. CORPORATE TRANSACTION**

A. Upon the occurrence of a Corporate Transaction, the exercisability of each option outstanding under this Article II shall be automatically accelerated so that each such option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option, whether or not vested, and may be exercised for all or any portion of such shares.

However, an outstanding option under this Article II shall NOT be so accelerated if and to the extent: (i) such option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation or parent thereof or to be replaced with a comparable option to purchase shares of the capital stock of the successor corporation or parent thereof, or (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing at the time of the Corporate Transaction on any shares for which the option is not otherwise at that time exercisable and provides for subsequent payout in accordance with the same exercise/vesting schedule applicable to those option shares, or (iii) the acceleration of such option is subject to other applicable limitations imposed by the Committee at the time of grant. The determination of comparability under clause (i) above shall be made by the Committee, and its determination shall be final and binding.

B. The Committee shall have the discretion, exercisable at any time, to provide (upon such terms and conditions as it may deem appropriate) for either the automatic acceleration of one or more assumed or replaced options which do not accelerate in connection with the Corporate Transaction or for the automatic vesting of any cash incentive programs implemented in replacement of such options, in the event the Optionee's employment should subsequently terminate within a designated period following the effective date of such Corporate Transaction.

C. Upon the consummation of the Corporate Transaction, all outstanding options under this Article II shall, to the extent not previously exercised or assumed by the successor corporation or its parent company, terminate and cease to be outstanding.

**ARTICLE III.  
AUTOMATIC OPTION GRANT PROGRAM**

**I. ELIGIBILITY**

A. Eligible Directors. The individuals eligible to receive automatic option grants pursuant to the provisions of this Article III program shall be limited to those individuals who first become non-Employee Board members on or after August 5, 1993, whether through appointment by the Board or election by the Company's stockholders. Any non-Employee Board member eligible to participate in the Automatic Option Grant Program pursuant to the foregoing criteria shall be designated an Eligible Director for purposes of this Plan.

B. Limitation. Except for the option grants to be made pursuant to the provisions of this Automatic Option Grant Program, an Eligible Director serving on the Committee or any secondary committee established pursuant to Section III.A. of Article I shall NOT be eligible during such period of service to receive any additional option grants or stock issuances under this Plan or any other stock plan of the Company (or any Parent or Subsidiary).

Options granted to Section 16(b) Insiders prior to the effective date of the June 15, 1992 Restatement contain a different form of Limited Right. Such right will provide each Section 16(b) Insider with a thirty (30)-day election period, following the successful completion of a hostile tender offer for fifty percent (50%) or more of the Company's outstanding voting securities, to surrender the underlying option for a cash distribution from the Company in an amount per share of Common Stock in which the Section 16(b) Insider is at the time vested under the surrendered option equal to the excess of the highest price per share paid in effecting such tender offer over the exercise price

payable per  
share under the  
surrendered  
option.

44

---

**Table of Contents**

**II. TERMS AND CONDITIONS OF AUTOMATIC OPTION GRANTS**

A. **Grant Dates.** Option grants shall be made under this Article III on the dates specified below:

(i) Each Eligible Director who has not at any time been in the prior employ of the Company (or any Parent or Subsidiary) shall automatically be granted, at the time of such initial election or appointment, a Non-Statutory Option to purchase 7,500 shares of Common Stock upon the terms and conditions of this Article III.

(ii) On the date of each Annual Stockholders Meeting, commencing with the 1993 Annual Stockholders Meeting, each individual who is at the time serving as an Eligible Director shall automatically be granted, whether or not such individual is standing for re-election as a Board member at that particular meeting and whether or not such individual has at any time been in the prior employ of the Company (or any Parent or Subsidiary), a Non-Statutory Option to purchase 3,000 shares of Common Stock upon the terms and conditions of this Article III, provided he or she has served as a non-Employee Board member for at least six (6) months prior to the date of such meeting. There shall be no limit on the number of 3,000-share option grants any Eligible Director may receive over his or her period of Board service.

The number of shares for which the automatic grants are to be made to each newly elected or continuing Eligible Director shall be subject to periodic adjustment pursuant to the applicable provisions of Section V.C. of Article I.

B. **Exercise Price.** The exercise price per share of Common Stock subject to each automatic option grant made under this Article III shall be equal to one hundred percent (100%) of the Fair Market Value per share of Common Stock on the automatic grant date.

C. **Payment.**

(i) The exercise price shall be payable in one or more of the alternative forms specified below:

a. full payment in cash or check payable to the Company's order; or

b. full payment in shares of Common Stock held for the requisite period necessary to avoid a charge to the Company's reported earnings and valued at Fair Market Value on the Exercise Date (as such term is defined below); or

c. full payment through a sale and remittance procedure pursuant to which the non-Employee Board member is to provide irrevocable written instructions (1) to a brokerage firm to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds available on the settlement date, an amount sufficient to cover the aggregate option price payable for the purchased shares and (2) to the Company to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction; or

(ii) If payment is made by means of the surrender of shares of Common Stock which are subject to certain restrictions, the number of shares of Common Stock issued upon the exercise of the option equal to the number of shares of restricted stock surrendered shall be subject to the same restrictions as the restricted stock that was surrendered.

(iii) The Exercise Date shall be the date on which written notice of the option exercise is delivered to the Company. Except to the extent the sale and remittance or loan procedure specified in clause (i)(c) above is utilized in connection with the option exercise, payment of the option price for the purchased shares must accompany such notice.

D. **Option Term.** Each automatic grant under this Article III shall have a maximum term of ten (10) years measured from the automatic grant date.

E. **Exercisability.** Each automatic grant shall become exercisable in a series of four (4) equal and successive annual installments over the Optionee's period of service on the Board, with the first such installment to become exercisable twelve (12) months after the automatic grant date. The exercisability of each automatic grant shall be subject to acceleration in accordance with the provisions of Section II.G and Section III of this Article III.

F. **Limited Transferability.** During the lifetime of the Optionee, each automatic option grant shall be exercisable only by the Optionee and shall not be assignable or transferable by Optionee other than by will or the laws of descent and distribution following the Optionee's death, or to any Family Member (as such term is defined in the General Instructions to Form S-8 (or any successor to such Instructions or such Form) under the Securities Act), provided that the Optionee may not receive any consideration for such transfer, the Family Member may not make any subsequent transfers other than by will or by the laws of descent and distribution and the Company receives written notice of such transfer. The assigned portion may only be exercised by



**Table of Contents**

the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Committee may deem appropriate. Notwithstanding the foregoing, the Optionee may also designate one or more persons as the beneficiary or beneficiaries of his or her outstanding options under the Plan, and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee's death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Optionee's death.

**G. Termination of Board Service.**

1. Should the Optionee's service as a Board member cease for any reason (other than death or Permanent Disability) while holding one or more automatic option grants under this Article III, then such individual shall have a six (6)-month period following the date of such cessation of Board service in which to exercise each such option for any or all of the shares of Common Stock for which the option is exercisable at the time of such cessation of Board service. However, each such option shall immediately terminate and cease to be outstanding, at the time of such cessation of Board service, with respect to any shares for which the option is not otherwise at that time exercisable.

2. Should the Optionee die within six (6) months after cessation of Board service, then each outstanding automatic option grant held by the Optionee at the time of death may subsequently be exercised, for any or all of the shares of Common Stock for which such option is exercisable at the time of the Optionee's cessation of Board service (less any option shares subsequently purchased by the Optionee prior to death), by the personal representative of the Optionee's estate, by the person or persons to whom the option is transferred pursuant to the Optionee's will or the laws of inheritance or by the Optionee's designated beneficiary or beneficiaries of that option. Any such exercise must occur with twelve (12) months after the date of the Optionee's death.

3. Should the Optionee die or become Permanently Disabled while serving as a Board member, then each automatic option grant held at that time by such Optionee under this Article III shall accelerate in full, and the Optionee (or the personal representative of the Optionee's estate, or the person or persons to whom the option is transferred pursuant to the Optionee's will or the laws of inheritance or the Optionee's designated beneficiary or beneficiaries of that option) shall have a twelve (12) month period following the date of the Optionee's cessation of Board service in which to exercise each such option for any or all of the shares of Common Stock subject to that option at the time of such cessation of Board service.

4. In no event shall any automatic grant under this Article III remain exercisable after the specified expiration date of the ten (10)-year option term. Upon the expiration of the applicable post-service exercise period under subparagraph 1, 2 or 3 above or (if earlier) upon the expiration of the ten (10)-year option term, the automatic grant shall terminate and cease to be outstanding for any unexercised shares for which the option was otherwise exercisable at the time of the Optionee's cessation of Board service.

H. **Remaining Terms.** The remaining terms and conditions of each automatic option grant shall be substantially the same as the terms in effect for option grants made under the Discretionary Option Grant Program and shall be set forth in an Award Agreement.

**III. CORPORATE TRANSACTION/CHANGE IN CONTROL/HOSTILE TAKE-OVER**

A. In the event of any Corporate Transaction effected during the Optionee's period of Board service, each automatic option grant at the time held by such Optionee under this Article III shall automatically accelerate so that each such option shall, immediately prior to the specified effective date for the Corporate Transaction, become exercisable for all of the shares of Common Stock at the time subject to such option and may be exercised for all or any portion of such shares. Upon the consummation of the Corporate Transaction, all automatic option grants under this Article III shall terminate and cease to be outstanding.

B. In the event of any Change in Control effected during the Optionee's period of Board service, each automatic option grant at the time held by such Optionee under this Article III shall automatically accelerate so that each such option shall, immediately prior to the specified effective date for the Change in Control, become exercisable for all of the shares of Common Stock at the time subject to such option and may be exercised for all or any portion of such shares.





**Table of Contents**

**ARTICLE IV.  
OTHER EQUITY BASED AWARDS PROGRAM**

Subject to any limitations contained in the Plan, the Committee shall have sole and exclusive authority (subject to the express provisions of the Plan) to determine which Eligible Persons are to be granted Awards under the Other Equity Based Awards Program, and the terms and conditions of any such Awards. Such Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time approve.

**I. STOCK APPRECIATION RIGHTS.**

The Committee is authorized to grant free-standing Stock Appreciation Rights to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. Each such Stock Appreciation Right granted under the Plan shall confer on the holder upon exercise the right to receive a number of Shares equal to the excess of (a) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine, at any time during a specified period before or after the date of exercise) over (b) the grant price of the Stock Appreciation Right as determined by the Committee, which grant price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan, the grant price, term, methods of exercise, dates of exercise and any other terms and conditions (including conditions or restrictions on the exercise thereof) of any Stock Appreciation Right shall be as determined by the Committee.

**II. RESTRICTED STOCK AND RESTRICTED STOCK UNITS**

A. The Committee is hereby authorized to grant Restricted Stock and Restricted Stock Units to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Restrictions. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, a restriction on or prohibition against the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate.

(ii) Stock Certificates. Any Restricted Stock granted under the Plan shall be evidenced by the issuance of a stock certificate or certificates, which shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the applicable Award Agreement and possible forfeiture of such shares of Restricted Stock.

(iii) Forfeiture. Except as otherwise determined by the Committee, upon a Participant's termination of employment (as determined under criteria established by the Committee) during the applicable restriction period, all applicable Shares of Restricted Stock and Restricted Stock Units at such time subject to restriction shall be forfeited and reacquired by the Company; *provided, however*, that the Committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units.

**III. PERFORMANCE AWARDS**

A. The Committee is hereby authorized to grant Performance Awards to Eligible Persons subject to the terms of the Plan. A Performance Award granted under the Plan (a) may be denominated or payable in cash, Shares (including, without limitation, Restricted Stock and Restricted Stock Units), other securities, other Awards or other property and (b) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee shall establish. Subject to the terms of the Plan, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted, the amount of any payment or transfer to be made pursuant to any Performance Award and any other terms and conditions of any Performance Award shall be determined by the Committee. From time to time, the Committee may designate a Performance Award granted hereunder as an award of qualified performance-based compensation within the meaning of Section 162(m) of the Code (a *Qualified Performance Based Award*), and such awards shall comply with the following requirements.

(i) Performance Goals; Timing of Designations. Qualified Performance Based Awards shall, to the extent required by Section 162(m), be conditioned solely on the achievement of one or more objective performance goals, and such performance goals shall be established by the Committee within the time period prescribed by, and shall otherwise

comply with the requirements of, Section 162(m) ( *Performance Goals*"). The Committee shall, not later than 90 days after the beginning of each performance period, (A) designate all Participants for such performance period, and (B) establish the objective Performance Goals for each Participant for that performance period on the basis of one or more of the business criteria set forth in (ii) below.

**Table of Contents**

(ii) **Business Criteria.** Unless and until the Committee proposes for stockholder approval and the Company's stockholders approve a change in the general business criteria set forth in this section, the attainment of which may determine the amount and/or vesting with respect to Qualified Performance Based Awards, the business criteria to be used for purposes of establishing Performance Goals for Qualified Performance Based Awards shall be selected from the following alternatives. Performance goals may be based upon one or more of the following business criteria, either individually, alternatively or in any combination, applied on a corporate, subsidiary or business unit basis: revenue, cash flow, gross profit, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization and net earnings, earnings per share, margins (including one or more of gross, operating and net income margins), returns (including one or more of return on assets, equity, investment, capital and revenue and total stockholder return), stock price, economic value added, working capital, market share, cost reductions, workforce satisfaction and diversity goals, employee retention, customer satisfaction, completion of key projects and strategic plan development and implementation. Such Performance Goals may reflect absolute entity or business unit performance or a relative comparison to the performance of a peer group of entities or other external measure of the selected performance criteria. Pursuant to rules and conditions adopted by the Committee on or before the 90th day of the applicable performance period for which Performance Goals are established, the Committee may appropriately adjust any evaluation of performance under such goals to exclude the effect of certain events, including any of the following events: asset write-downs; litigation or claim judgments or settlements; changes in tax law, accounting principles or other such laws or provisions affecting reported results; severance, contract termination and other costs related to exiting certain business activities; and gains or losses from the disposition of businesses or assets or from the early extinguishment of debt.

(iii) **Payment of Qualified Performance Based Awards.** Unless another specified payment date or schedule of payment dates is provided in the applicable Award Agreement, Qualified Performance Based Awards shall be paid within 2 1/2 months after the end of the calendar year in which the applicable performance condition ends. The Committee shall certify in writing that Performance Goals have been met prior to payment of the Qualified Performance Based Awards to the extent required by Section 162(m). The Committee may, in its discretion, reduce the amount of a payout otherwise to be made in connection with a Qualified Performance Based Award, but may not exercise discretion to increase such amount.

(iv) **Certain Events.** If a Participant dies or becomes permanently and totally disabled before the end of a performance period or after the performance period and before a Qualified Performance Based Award is paid, the Committee may, in its discretion, determine that the Participant shall be paid a pro rated portion of the award that the Participant would have received but for such death or disability.

(v) **Stockholder Approval of Plan.** Any Qualified Performance Based Award shall be null and void and have no effect whatsoever unless the Plan shall have been approved by the stockholders of the Company at the Company's 2006 Annual Stockholders Meeting. No Qualified Performance Based Award shall be granted more than five years after the date of such 2006 Annual Stockholders Meeting unless the stockholders have re-approved the Plan to the extent required by Section 162(m) of the Code.

(vi) **Interpretation.** The provisions in this Section III of Article IV, and all of the other terms and conditions of the Plan as it applies to any Qualified Performance Based Award, shall be interpreted in such a fashion as to qualify all compensation paid thereunder as qualified performance-based compensation within the meaning of Section 162(m) of the Code.

**IV. DIVIDEND EQUIVALENTS**

The Committee is authorized to grant Dividend Equivalents to Eligible Persons under which the Participant shall be entitled to receive payments (in cash, Shares, other securities, other Awards or other property as determined in the discretion of the Committee) equivalent to the amount of cash dividends paid by the Company to holders of Shares with respect to a number of Shares determined by the Committee. Subject to the terms of the Plan, such Dividend Equivalents may have such terms and conditions as the Committee shall determine.

**V. OTHER STOCK-BASED AWARDS**

The Committee is authorized to grant to Eligible Persons, subject to the terms of the Plan, such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares

(including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. Shares or other securities delivered pursuant to a purchase right granted under this Section V shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including, without limitation, cash, Shares, promissory notes, promissory notes (*provided, however*, that the par value of any Shares to be issued pursuant to such exercise shall be paid in the form of cash, services rendered, personal property, real property or a combination thereof and the acceptance such promissory notes does not conflict with Section 402 of the Sarbanes-Oxley Act of 2002), other securities, other Awards or other property or any combination thereof, as the Committee shall determine, the value of which consideration, as

**Table of Contents**

established by the Committee, shall not be less than 100% of the Fair Market Value of such Shares or other securities as of the date such purchase right is granted.

**ARTICLE V.  
MISCELLANEOUS**

**I. LOANS OR GUARANTEE OF LOANS**

The Committee may assist a Participant (including any officer or director) in the exercise of one or more outstanding options under the Discretionary Option Grant Program or one or more outstanding Awards under the Other Equity Based Awards Program by (a) authorizing the extension of a full-recourse interest-bearing loan to such Optionee from the Company, (b) permitting the Participant to pay the exercise price or other purchase price with respect to such Award in installments over a period of years or (c) authorizing a guarantee by the Company of a third-party loan to the Participant, but in each case only to the extent any such action does not conflict with Section 402 of the Sarbanes-Oxley Act of 2002. The terms of any loan, installment method of payment or guarantee (including the interest rate and terms of repayment) shall be established by the Committee in its sole discretion. The maximum credit available to the Participant shall not exceed the sum of (i) the aggregate exercise price of the option shares (less the par value) or the aggregate purchase price for the Award plus (ii) any Federal and state income and employment tax liability incurred by the Participant in connection with the exercise of the option or Award.

**II. TAX WITHHOLDING**

A. The Company's obligation to deliver shares or cash upon the exercise or surrender of stock options or any Awards granted under the Plan shall be subject to the satisfaction by the Participant of all applicable Federal, state and local income and employment tax withholding requirements.

B. The Committee may, in its discretion and upon such terms and conditions as it may deem appropriate (including the applicable safe-harbor provisions of SEC Rule 16b-3 or any successor rule or regulation) provide any or all holders of outstanding option grants under the Plan (other than grants made to non-Employees) with the election to surrender previously acquired shares of Common Stock or have shares withheld in satisfaction of the tax withholding obligations. To the extent necessary to avoid adverse accounting treatment, the number of shares that may be withheld for this purpose shall not exceed the minimum number needed to satisfy the applicable income and employment tax withholding rules. If Common Stock is used to satisfy the Company's tax withholding obligations, the stock shall be valued at its Fair Market Value when the tax withholding is required to be made.

**III. EXTENSION OF EXERCISE PERIOD**

The Committee shall have full power and authority to extend the period of time for which any option granted under the Discretionary Option Grant Program is to remain exercisable following the Optionee's termination of service from the period set forth in the option agreement to such greater period of time as the Committee shall deem appropriate; provided, however, that in no event shall such extension exceed the limitations set forth by applicable law and regulations under Code Section 409A; and provided further, that in no event shall such option be exercisable after the specified expiration date of the option term.

**IV. AMENDMENT OF THE PLAN**

The Board shall have the complete and exclusive authority to amend, modify, suspend, discontinue or terminate the Plan; provided, however, that if and to the extent required by Code Section 409A and applicable guidance thereunder, such authority will not include the authority to terminate deferred compensation arrangements in violation of Code Section 409A; and provided further, that no amendment or modification shall, without the consent of the holders, adversely affect rights and obligations with respect to any stock options, stock appreciation rights, or other Awards at the time outstanding under the Plan. In addition, certain amendments, including increasing the number of shares issuable under the Plan or modifying the requirements for eligibility, will require stockholder approval pursuant to applicable laws or regulations.

**V. EFFECTIVE DATE AND TERM OF PLAN**

A. The Plan was initially adopted by the Board and approved by the Company's sole stockholder on August 1, 1988.  
B. The Board and sole stockholder amended and restated the Plan effective May 15, 1991 to (i) increase the number of shares issuable pursuant to the Plan, (ii) conform the provisions of the Plan to the SEC rules under Section 16 of the Exchange Act



**Table of Contents**

applicable to certain transactions effected under the Plan by Section 16(b) Insiders and (iii) provide for the ability to grant incentive stock options.

C. The Plan was further restated on June 15, 1992 (the 1992 Restatement ) to (i) increase the number of shares of Common Stock authorized for issuance under the Plan by an additional 400,000 shares, (ii) bring the Plan into compliance with revisions to SEC Rule 16b-3 which became effective on September 1, 1993 and would exempt certain officer and director transactions under the Plan from the short-swing liability provisions of the federal securities laws and (iii) effect certain technical revisions to the provisions of the Plan to facilitate plan administration and interpretation. The 1992 Restatement was approved by the Company's stockholders at the 1992 Annual Meeting.

D. The Plan was further restated and amended by the Board in June 1993 (the 1993 Restatement ) to add the Automatic Option Grant Program. The 1993 Restatement was approved by the Company's stockholders at the 1993 Annual Meeting.

E. On May 4, 1994, the Board approved an amendment and restatement of the Plan (the 1994 Restatement ) to (i) increase the aggregate number of shares issuable over the term thereof by 400,000 shares to a total of 2,670,000 shares and (ii) impose a limitation of 1,600,000 shares on the maximum number of shares of Common Stock for which any one participant may be granted stock options and separately exercisable stock appreciation rights over the remaining term of the Plan. The 1994 Restatement was approved by the Company's stockholders at the 1994 Annual Meeting.

F. On June 21, 1996, the Board approved an amendment and restatement of the Plan (the 1996 Restatement ) to (i) increase the aggregate number of shares issuable over the term thereof by 400,000 shares to 3,070,000 shares, and (ii) extend the expiration date of the Plan to June 30, 2006. The 1996 Restatement was approved by the Company's stockholders at the 1996 Annual Meeting.

G. In June 1997, the Board further amended and restated the Plan (the 1997 Restatement ) to effect the following revisions: (i) increase the number of shares of Common Stock reserved for issuance over the term of the Plan by an additional 400,000 shares to 3,470,000 shares, (ii) render the non-Employee Board members eligible to receive option grants under the Discretionary Option Grant Program, (iii) allow unvested shares issued under the Plan and subsequently repurchased by the Company at the option exercise price paid per share to be reissued under the Plan, (iv) remove certain restrictions on the eligibility of non-Employee Board members to serve as members of the Committee and (v) effect a series of additional changes to the provisions of the Plan in order to take advantage of certain amendments to SEC Rule 16b-3. The 1997 Restatement was approved by the Company's stockholders at the 1997 Annual Meeting.

H. In February 1999, the Board further amended and restated the Plan to permit optionees under the Discretionary Option Grant and Automatic Option Programs of the Plan to designate a beneficiary or beneficiaries to whom their options may be transferred upon their death.

I. On May 10, 2001, the Board further amended and restated the Plan (the 2001 Restatement ) to (i) effect certain technical revisions to the provisions of the Plan in order to facilitate the administration and interpretation of the Plan, (ii) clarify the group of employees who are eligible to participate in the Plan and (iii) increase the number of shares of Common Stock reserved for issuance over the term of the Plan by an additional 500,000 shares to 3,970,000 shares. The 2001 Restatement was approved by the Company's stockholders at the 2001 Annual Meeting.

J. On June 27, 2006, the Board further amended and restated the Plan (the 2006 Restatement ) to (i) address changes in applicable law and accounting principles, (ii) permit the Committee to make awards of free-standing stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalents, and Other Stock-Based Awards under the Plan, subject to such terms and conditions as determined by the Committee, (iii) extend the term of the Plan until June 30, 2016, (iv) rename the Plan and (v) increase the number of shares of Common Stock reserved for issuance over the term of the Plan by an additional 500,000 shares to 6,455,000 shares. The 2006 Restatement was approved by the Company's stockholders approval at the 2006 Annual Meeting.

K. All share numbers in the 2006 Restatement reflect (i) the two-for-one split of the Common Stock effected on June 14, 1999 and (ii) the three-for-two split of the Common Stock effected on August 31, 2001, and all share numbers in the 2008 Restatement (defined below) reflect the 3-for-2 split of the Common Stock effected on December 8, 2006, all of which were effected in the form of a stock dividend.

L. On May 6, 2008, the Board further amended and restated the Plan (the 2008 Restatement ) to reduce the number of shares of common stock underlying options to be granted under the automatic option grant program from 11,250 to 7,500 shares for initial automatic option grants to be awarded to a director upon first joining the Board and from 4,500 to 3,000 shares for annual automatic option grants to be awarded to directors on the date of each annual meeting of stockholders. The 2008 Restatement is subject to stockholder approval at the 2008 Annual Meeting.



**Table of Contents**

M. The provisions of the various restatements of the Plan apply only to stock options, stock appreciation rights, and other Awards granted under the Plan from and after the respective effective dates of such Restatements. All stock options and stock appreciation rights issued and outstanding under the Plan immediately prior to such effective dates of the restatements of the Plan shall continue to be governed by the terms and conditions of the Plan (and the instrument evidencing each such option or stock appreciation right) as in effect on the date each such option or stock appreciation was previously granted, and nothing in the restatements of the Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such options or stock appreciation rights with respect to the acquisition of shares of Common Stock thereunder or the exercise of their outstanding stock appreciation rights.

N. The sale and remittance procedure authorized for the exercise of outstanding options shall be available for all options granted under the Plan from and after November 6, 1991 and for all Non-Statutory Options outstanding on such date.

O. Subject to Section IV of Article V, the Plan shall in all events terminate upon the EARLIEST of (i) June 30, 2016, (ii) the date on which all shares available for issuance under the Plan shall have been issued or cancelled pursuant to the exercise or surrender of stock options, stock appreciation rights or other Awards under the Plan, (iii) the termination of all outstanding Awards in connection with a Corporate Transaction or (iv) termination by the Board. If the date of termination is determined under clause (i) above, then any stock options, stock appreciation rights or other Awards at the time outstanding under the Plan shall continue to have force and effect in accordance with the provisions of the instruments evidencing such grants.

**VI. MISCELLANEOUS MATTERS**

A. Any cash proceeds received by the Company from the issuance of shares hereunder shall be used for any corporate purpose.

B. The implementation of the Plan, the granting of any stock option or other Award, and the issuance of Common Stock or other Award hereunder, shall be subject to the Company's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, and the stock options and other Awards granted under it and the Common Stock issued pursuant to it. The inability of the Company to obtain the requisite approvals shall relieve the Company of any liability with respect to the non-issuance or sale of the Common Stock as to which such approvals shall not have been obtained. The Company, however, shall attempt to obtain all requisite approvals.

C. No shares of Common Stock or other property shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of Federal and state securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which Common Stock is then listed for trading. No shares of Common Stock or other property shall be issued or delivered under the Plan if doing so would violate any internal policies of the Company.

D. Neither the action of the Company in establishing the Plan, nor any action taken by the Board or the Committee hereunder, nor any provision of the Plan itself shall be construed so as to grant any individual the right to remain in the employ or service of the Company or any Parent or Subsidiary for any period of specific duration, and the Company (or any Parent or Subsidiary retaining the services of such individual) may terminate such individual's employment or service at any time and for any reason, with or without cause.

E. Nothing contained in the Plan shall be construed to limit the authority of the Company to exercise its corporate rights and powers, including (without limitation) the right of the Company (a) to grant options for corporate purposes otherwise than under this Plan to any Eligible Person or other Person, firm or company or association or (b) to grant options to, or assume the option of, any Person in connection with the acquisition (by purchase, lease, merger, consolidation or otherwise) of the business and assets (in whole or in part) of any Person, firm, company or association.

F. No Participant will have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the Participant. In the event that any provision of an Award Agreement conflicts with or is inconsistent in any respect with the terms of the Plan as set forth herein or subsequently amended, the terms of the Plan shall control.

G. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Parent or Subsidiary and an Eligible Person or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Parent or Subsidiary pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

**Table of Contents**

H. The Plan is intended to comply in all respects with Rule 16b-3 or any successor provision, as in effect from time to time, and in all events the Plan shall be construed in accordance with the requirements of Rule 16b-3. If any Plan provision does not comply with Rule 16b-3 as hereafter amended or interpreted, the provision shall be deemed inoperative. The Board, in its absolute discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan with respect to persons who are officers or directors subject to Section 16 of the Exchange Act without so restricting, limiting or conditioning the Plan with respect to other Eligible Persons. With respect to Options and Stock Appreciation Rights, the Company intends to have the Plan administered in accordance with the requirements for the award of qualified performance-based compensation within the meaning of Section 162(m) of the Code.

I. No compensation or benefit awarded to or realized by any Participant under the Plan shall be included for the purpose of computing such Participant's compensation under any compensation-based retirement, disability, or similar plan of the Company unless required by law or otherwise provided by such other plan.

J. Except with respect to Shares of Restricted Stock as to which the Participant has been granted the right to vote, neither a Participant nor the Participant's legal representative shall be, or have any of the rights and privileges of, a stockholder of the Company with respect to any Shares issuable to such Participant upon the exercise or payment of any Award, in whole or in part, unless and until such Shares have been issued in the name of such Participant or such Participant's legal representative without restrictions thereto.

K. No Award and no right under any such Award shall be assignable or transferable by a Participant other than by will or the laws of descent and distribution following the Participant's death; provided, however, that at any time such Participant holds a Non-Statutory Option, such Participant may transfer such Option to any Family Member (as such term is defined in the General Instructions to Form S-8 (or any successor to such Instructions or such Form) under the Securities Act), provided that the Participant may not receive any consideration for such transfer, the Family Member may not make any subsequent transfers other than by will or by the laws of descent and distribution and the Company receives written notice of such transfer. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the Award pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the Award immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Committee may deem appropriate. Notwithstanding the foregoing, the Participant may also designate one or more persons as the beneficiary or beneficiaries of his or her outstanding Awards under the Plan, and those Awards shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Participant's death while holding those Awards. Such beneficiary or beneficiaries shall take the transferred Awards subject to all the terms and conditions of the applicable agreement evidencing each such transferred Award.

L. The validity, construction and effect of the Plan or any Award, and any rules and regulations relating to the Plan or any Award, shall be determined in accordance with the internal laws, and not the law of conflicts, of the State of Delaware.

M. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

N. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

O. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

**Table of Contents**

**CORVEL CORPORATION  
PROXY**

**Annual Meeting of Stockholders, August 14, 2008  
This Proxy is Solicited on Behalf of the Board of Directors**

The undersigned revokes all previous proxies, acknowledges receipt of the Notice of Annual Meeting of Stockholders to be held on August 14, 2008, and the accompanying Proxy Statement, and appoints V. Gordon Clemons and Richard J. Schweppe, or either of them, the proxy of the undersigned, with full power of substitution, to vote all shares of the Common Stock of CorVel Corporation which the undersigned is entitled to vote, either on his or her own behalf or on behalf of an entity or entities, at the Annual Meeting of Stockholders of CorVel Corporation to be held at 2010 Main Street, Suite 600, Irvine, California, on Thursday, August 14, 2008 at 1:00 p.m. Pacific Daylight Time, and at any adjournment or postponement thereof, with the same force and effect as the undersigned might or could do if personally present thereat. In their discretion, the proxies are authorized to vote upon any other matter that may properly come before the meeting or any adjournment or postponement thereof. The shares represented by this proxy shall be voted in the following manner:

1. To elect the following directors to serve until the 2009 annual meeting of stockholders or until their successors have been duly elected and qualified.
 

V. Gordon Clemons	FOR <input type="radio"/>	WITHHOLDING AUTHORITY <input type="radio"/>
Steven J. Hamerslag	FOR <input type="radio"/>	WITHHOLDING AUTHORITY <input type="radio"/>
Alan R. Hoops	FOR <input type="radio"/>	WITHHOLDING AUTHORITY <input type="radio"/>
R. Judd Jessup	FOR <input type="radio"/>	WITHHOLDING AUTHORITY <input type="radio"/>
Jean H. Macino	FOR <input type="radio"/>	WITHHOLDING AUTHORITY <input type="radio"/>
Jeffrey J. Michael	FOR <input type="radio"/>	WITHHOLDING AUTHORITY <input type="radio"/>
  
2. To approve an amendment to the CorVel Corporation Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) to reduce the number of shares of common stock underlying options to be granted under the automatic option grant program from 11,250 to 7,500 shares for initial automatic option grants to be awarded to a director upon first joining the Board and from 4,500 to 3,000 shares for annual automatic option grants to be awarded to directors on the date of each annual meeting of stockholders;
 

FOR <input type="radio"/>	AGAINST <input type="radio"/>	ABSTAIN <input type="radio"/>
---------------------------	-------------------------------	-------------------------------
  
3. To ratify the appointment of Haskell & White LLP as our independent auditors for the fiscal year ending March 31, 2009; and
 

FOR <input type="radio"/>	AGAINST <input type="radio"/>	ABSTAIN <input type="radio"/>
---------------------------	-------------------------------	-------------------------------

In accordance with the discretion of the proxy holders, to act upon all matters incident to the conduct of the meeting and upon other matters as may properly come before the meeting.

**The Board of Directors recommends a vote FOR each of the nominees and the proposals set forth above. This Proxy, when properly executed, will be voted as specified above. This Proxy will be voted FOR the nominees listed above and FOR the other Proposals if no specification is made.**

Dated:

(Print name(s) as it (they) appear(s) on certificate)

(Authorized Signature(s))

Please print the name(s) appearing on each  
share certificate(s) over which you have voting  
authority.

PLEASE RETURN YOUR EXECUTED PROXY TO COMPUTERSHARE TRUST COMPANY, N.A. IN THE  
ENCLOSED SELF-ADDRESSED, POSTAGE PRE-PAID ENVELOPE.