Health Fitness Corp /MN/
Form 10-Q
May 16, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

COMMISSION FILE NO. 000-25064

HEALTH FITNESS CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MINNESOTA	NO. 41-1580506
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NO.)

3600 AMERICAN BOULEVARD WEST, BLOOMINGTON, MINNESOTA 55431
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER (952) 831-6830

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES [ ] NO [X]

The number of shares outstanding of the registrant's common stock as of May 13, 2005 was: Common Stock, $0.01 par value, 12,652,370 shares

HEALTH FITNESS CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
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HEALTH FITNESS CORPORATION
CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2005
ASSETS	
CURRENT ASSETS	
Cash	$ 49
Trade and other accounts receivable, less allowances of $212,000 and $210,700	8,692
Prepaid expenses and other	474
Deferred tax assets	1,212
Total current assets	10,429
PROPERTY AND EQUIPMENT, net	141
OTHER ASSETS	
Goodwill	9,022
Customer contracts, less accumulated amortization of $1,077,800 and $875,700	652
Trademark, less accumulated amortization of $93,300 and $75,800	256
Other intangible assets, less accumulated amortization of $86,300 and $81,300	11
Deferred tax assets	263

Other	76
	$ 20,854
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Trade accounts payable	$ 484
Accrued salaries, wages, and payroll taxes	2,564
Other accrued liabilities	413
Accrued self funded insurance	218
Deferred revenue	1,906
Total current liabilities	5,587
LONG-TERM OBLIGATIONS	1,573
COMMITMENTS AND CONTINGENCIES	
PREFERRED STOCK, $0.01 par value; 5,000,000 shares authorized, 1,078,740 and 1,063,945 issued and outstanding	1,521
STOCKHOLDERS' EQUITY	
Common stock, $0.01 par value; 25,000,000 shares authorized; 12,652,370 and 12,582,170 shares issued and outstanding	126
Additional paid-in capital	17,895
Accumulated comprehensive income	2
Accumulated deficit	(5,853
	12,171
	$ 20,854

See notes to consolidated financial statements.

HEALTH FITNESS CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS

	Thre
	2005
REVENUE	$ 13,465
COSTS OF REVENUE	10,023
GROSS PROFIT	3,441
OPERATING EXPENSES	
Salaries	1,387

Selling, general and administrative	736
Amortization of intangible assets	219
Total operating expenses	2,344
OPERATING INCOME	1,097
OTHER INCOME (EXPENSE)	
Interest expense	(11
Other, net	(1
EARNINGS BEFORE INCOME TAX EXPENSE	1,083
INCOME TAX EXPENSE	434
NET EARNINGS	649
Dividend to preferred shareholders	21
NET EARNINGS APPLICABLE TO COMMON SHAREHOLDERS	$ 627
NET EARNINGS PER COMMON SHARE:	
Basic	$
Diluted	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	
Basic	12,619
Diluted	16,614

See notes to consolidated financial statements

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HEALTH FITNESS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thr
	2005
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net earnings	$ 649
Adjustments to reconcile net earnings to net cash used in operating activities:	
Depreciation	19
Amortization	213
Deferred taxes	405
Change in assets and liabilities:	
Trade and other accounts receivable	(545
Prepaid expenses and other	(260
Other assets	10

Trade accounts payable	(355
Accrued liabilities and other	(293
Deferred revenue	(70
Net cash used in operating activities	(226
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(10
Cash payments made for acquisition	
Net cash used in investing activities	(10
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings under long-term obligations	7,186
Repayments of long-term obligations	(7,225
Proceeds from the issuance of common stock	73
Proceeds from the exercise of stock options	11
Net cash provided by financing activities	45
NET INCREASE (DECREASE) IN CASH	(191
CASH AT BEGINNING OF PERIOD	241
CASH AT END OF PERIOD	$ 49

See notes to consolidated financial statements.

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HEALTH FITNESS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements for the first quarter ended March 31, 2005 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Financial information as of December 31, 2004 has been derived from our audited consolidated financial statements. In accordance with the rules and regulations of the United States Securities and Exchange Commission, the Company has omitted footnote disclosures that would substantially duplicate the disclosures contained in the audited financial statements of the Company. The unaudited consolidated financial statements should be read together with the financial statements for the year ended December 31, 2004, and footnotes thereto included in the Company's Form 10-K as filed with the United States Securities and Exchange Commission on March 31, 2005.

In the opinion of management, the interim consolidated financial statements include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of the results for interim periods presented. These financial statements include some amounts that are based on management's best estimates and judgments. These estimates may be adjusted as more information becomes available, and any adjustment could be significant. The impact of any change in estimates is included in the determination of earnings in the period in which the change in estimate is identified. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the operating results that may be expected for the year ended December 31, 2005.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - Health Fitness Corporation and its wholly owned subsidiaries (the Company) provide fitness and health management services and programs to corporations, hospitals, communities and universities located in the United States and Canada. Fitness and health management services include the development, marketing and management of corporate, hospital, community and university based fitness centers, injury prevention and work-injury management consulting, on-site physical therapy and employee health management services. Programs include wellness and health programs for individual customers, including health risk assessments, biometric screenings, nutrition and weight loss programs, smoking cessation, massage therapy, back care and ergonomic injury prevention.

Consolidation - The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Cash - The Company maintains cash balances at several financial institutions, and at times, such balances exceed insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Trade and Other Accounts Receivable - Trade and other accounts receivable represent amounts due from companies and individuals for services and products. The Company grants credit to customers in the ordinary course of business, but generally does not require collateral or any other security to support amounts due. Management performs ongoing credit evaluations of customers. The Company determines its allowance for discounts and doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such

receivable are credited to the allowance. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers and their geographic dispersion.

Property and Equipment - Property and equipment are stated at cost. Depreciation and amortization are computed using both straight-line and accelerated methods over the useful lives of the assets.

Goodwill - Goodwill represents the excess of the purchase price and related costs over the fair value of net assets of businesses acquired. The carrying value of goodwill is not amortized, but is tested for impairment on an annual basis or when factors indicating impairment are present. Projected discounted cash flows are used in assessing these assets.

Intangible Assets - The Company's intangible assets include customer contracts, trademark, and deferred financing costs and are amortized on a straight-line basis. Customer contracts represent the fair value assigned to acquired management contracts and are amortized over the remaining life of the contracts, of which 10 months remain at March 31, 2005. Trademark represents the value assigned to an acquired trademark and is amortized over a period of five years. Deferred financing costs are amortized over the term of the related credit agreement.

Revenue Recognition - Revenue is recognized at the time the service is provided to the customer. For annual contracts, monthly amounts are recognized ratably over the term of the contract. Certain services provided to the customer may vary on a periodic basis and are invoiced to the customer in arrears. The revenues relating to these services are estimated in the month the service is performed based on the cost of the services.

Amounts received from customers in advance of providing the services of the contract are recorded as deferred revenue and recognized when the services are provided.

The Company has contracts with third-parties (e.g. janitorial services) to provide ancillary services in connection with their fitness and wellness management services and programs. Under such arrangements the third-parties invoice and receive payments from the Company based on services provided to the ultimate customer. The Company does not recognize revenues related to such transactions as the ultimate customer assumes the risk and rewards of the contract and the amounts billed to the customer are either at cost or with a fixed markup.

Comprehensive Income - Comprehensive income represents net earnings adjusted for foreign currency translation adjustments. Total comprehensive income was $628,389 and $335,434 for the three months ended March 31, 2005 and 2004.

Net Earnings Per Share - Basic net earnings per share is computed by dividing net earnings applicable to common shareholders by the number of weighted average common shares outstanding. Diluted net earnings per share is computed by dividing net earnings applicable to common shareholders plus dividends to preferred shareholders (net earnings) by the number of weighted average common shares outstanding, and common share equivalents relating to stock options and stock warrants, when dilutive.

Common stock options and warrants to purchase 277,500 and 365,100 shares of common stock were excluded from the calculation for the three months ended March 31, 2005 and 2004 because their exercise price exceeded the average trading price of the Company's common stock during each of the periods.

Stock-based Compensation - The Company utilizes the intrinsic value method of accounting for its stock based employee compensation plans. All options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and accordingly, no compensation cost is reflected in net earnings for the three months ended March 31, 2005 and 2004. The following table illustrates the effect on net

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earnings and earnings per share if the Company had applied the fair value method of accounting for stock options:

	Three Month March 3
	2005
Net earnings, applicable to common shareholders	$ 627,934
Less: Compensation expense determined under the fair value method,	

net of tax	(37,183)
Pro forma net earnings, basic	590,751
Add: Dividends to preferred shareholders	21,600
Pro forma net earnings - diluted	$ 612,351
Earnings per Share:	
Basic, as reported	$ 0.05
Basic, pro forma	$ 0.05
Diluted, as reported	$ 0.04
Diluted, pro forma	$ 0.04

The pro forma information above should be read in conjunction with the related historical information.

The fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions and results for the grants:

	2005
Dividend yield	None
Expected volatility	78%
Expected life of option	4 years
Risk-free interest rate	2.43%
Weighted average fair value of options on grant date	$ 1.59

In December 2004, the Financial Accounting Standards Board, referred to herein as the FASB, issued Statement 123R, Share-Based Payment. Statement 123R is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation, and supercedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The revision requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments granted to employees.

In April 2005, the United States Securities and Exchange Commission announced the adoption of a new rule that amended the compliance dates for Statement 123R as first adopted by the FASB. As a result of this change, the Company is required to implement Statement 123R beginning with the Company's next fiscal year starting January 1, 2006. The Company expects that the adoption of Statement 123R will result in a decrease of net income due to additional compensation expense attributed to employee stock options.

Fair Values of Financial Instruments - Due to their short-term nature, the carrying value of the Company's current financial assets and liabilities approximates their fair values. The fair value of long-term obligations, if recalculated based on current interest rates, would not significantly differ from the recorded amounts.

Use of Estimates - Preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and

liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3.FINANCING

On August 22, 2003, the Company entered into a $7,500,000 Credit Agreement with Wells Fargo Bank, N.A. to provide the Company with acquisition financing and general working capital (the "Wells Loan"). Working capital advances from the Wells Loan are available on a revolving basis and are based upon a percentage of the Company's eligible accounts receivable, less any amounts previously drawn. At the option of the Company, the Wells Loan bears interest at prime or the one-month LIBOR plus a margin of 2.25% to 2.75% based upon the Company's Senior Leverage Ratio (effective rate of 5.75% and 5.25% at March 31, 2005 and December 31, 2004). Borrowing capacity under the Wells Loan decreases $250,000 on the last day of each calendar quarter, beginning September 30, 2003, and matures on June 30, 2007. The facility provided maximum borrowing capacity of $5,750,000 and $6,000,000 at March 31, 2005 and December 31, 2004. Excluding current outstanding balances, $2,813,891 and $3,758,851 was available for borrowing on such respective dates. Borrowings under the Wells Loan are collateralized by substantially all of the Company's assets. The Company is required to comply with certain monthly financial covenants, including a senior cash flow leverage ratio, senior leverage ratio and current ratio. At March 31, 2005, the Company had $1,573,788 outstanding under the Wells Loan, and was in compliance with all of its financial covenants.

On August 25, 2003, the Company entered into a $3,000,000 Securities Purchase Agreement with Bayview Capital Partners LP ("Bayview") to provide the Company with acquisition financing and general working capital (the "Bayview Investment"). The Bayview Investment was initially structured as a bridge note (the "Bridge Note"), the proceeds of which were placed into escrow to fund a portion of our purchase of the Health & Fitness Services Division of Johnson & Johnson Health Care Systems Inc..

On December 8, 2003 (the "Effective Date"), the $3,000,000 Bridge Note issued to Bayview was converted into a $2,000,000 term note (the "Term Note"), $1,000,000 in Series A Convertible Preferred Stock (the "Preferred Stock") and a warrant to purchase common stock of the Company (the "Warrant") pursuant to the terms set forth in the August 25, 2003 Securities Purchase Agreement.

The Preferred Stock was issued to Bayview at a price of $1.00 per share, resulting in 1,000,000 shares issued on the Effective Date. The Preferred Stock has a stated dividend rate of 6% per year, computed on a simple interest basis, paid in kind in the form of additional shares of Preferred Stock using a price of $1.00 per share ("PIK Dividends"). At the option of the holder, the Preferred Stock, including any PIK Dividends, may be converted, at any time and from time to time, into common stock of the Company at a price of $0.50 per share. In addition, Bayview may require redemption of the Preferred Stock and PIK Dividends upon a change of control or default (including default under the Term Note).

The Warrant issued to Bayview on the Effective Date represents the right to purchase 1,210,320 shares of common stock, which represented 8% of the Company's common stock outstanding on a fully diluted basis at the Effective Date, excluding the common stock issuable to Bayview upon conversion of the Preferred

Stock. The Warrant is exercisable at any time for a period of ten years at an exercise price equal to $0.50 per share, and the shares obtainable upon exercise of the Warrant may be put to the Company at fair market value (net of the exercise price) upon a change of control or default.

On December 29, 2004, the Company prepaid its Bayview Term Note by utilizing funds from the Wells Loan. In connection with the Term Note repayment, the Company also paid a prepayment penalty of $80,000, which

represents 4% of the face value of the Term Note. In addition, the Company incurred a one-time, non-cash charge to interest expense of $394,669, representing $345,754 of unamortized difference between the face value of the Term Note and its assigned relative fair value, as well as $48,916 of unamortized financing costs related to the Term Note. At the same time, the Company and Wells Fargo agreed to amend the Wells Loan to change the senior leverage ratio covenant to reflect the Company's financial position subsequent to the Term Note repayment. The Company was in compliance with this change in covenant at March 31, 2005.

Balances of long-term obligations are as follows:

	March 31, 2005	December 31, 2004
Wells Loan	$ 1,573,788	$ 1,612,759

The outstanding principal balance on the Wells Loan matures June 2007.

NOTE 4. INCOME TAXES

The Company records income taxes in accordance with the liability method of accounting. Deferred income taxes are provided for temporary differences between the financial reporting and tax basis of assets and liabilities and federal operating loss carryforwards. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment. Income taxes are calculated based on management's estimate of the Company's effective tax rate, which takes into consideration a federal tax rate of 34% and an effective state tax rate of 6%.

NOTE 5. STOCK OPTIONS

The Company maintains a stock option plan for the benefit of certain eligible employees and directors of the Company. A total of 1,331,100 shares of common stock are reserved for additional grants of options under the plan at March 31, 2005. Generally, the options outstanding (1) are granted at prices equal to the market value of the stock on the date of grant, (2) vest over various terms and, (3) expire over a period of five or ten years from the date of grant.

A summary of stock option activity for the quarter ended March 31, 2005 is as follows:

	Number of	Weighted Average

	Shares	Exercise Price
Outstanding at December 31, 2004	1,921,550	$ 1.06
Granted	175,000	2.70
Exercised	(23,375)	0.49
Outstanding at March 31, 2005	2,073,175	$ 1.21

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in Item 1 of Part 1 of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

CRITICAL ACCOUNTING POLICIES. Our most critical accounting policies, which are those that require significant judgment, include: revenue recognition, trade and other accounts receivable, goodwill and stock-based compensation. A more in-depth description of these can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

GENERAL. Health Fitness Corporation and its wholly owned subsidiaries (the Company) provide fitness and health management services and programs to corporations, hospitals, communities and universities located in the United States and Canada. Fitness and health management services include the development, marketing and management of corporate, hospital, community and university based fitness centers, injury prevention and work-injury management consulting, on-site physical therapy and employee health management services. Programs include wellness and health programs for individual customers, including health risk assessments, biometric screenings, nutrition and weight loss programs, smoking cessation, massage therapy, back care and ergonomic injury prevention.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2005 COMPARED TO THE QUARTER ENDED MARCH 31, 2004.

REVENUE. Revenues increased $799,000 or 6.3% to $13,465,000 for the three months ended March 31, 2005, from $12,666,000 for the three months ended March 31, 2004. This increase is attributable to staffing services growth of $396,000, fitness and health program services growth of $394,000 and growth from consulting services of $9,000.

GROSS PROFIT. Gross profit increased $355,000 or 11.5% to $3,442,000 for the three months ended March 31, 2005, from $3,087,000 for the three months ended March 31, 2004. This increase is due primarily to the revenue growth discussed previously, as well as lower medical benefit costs for full-time employees.

As a percent of revenue, gross profit increased 1.2% to 25.6% from 24.4% for the first quarter of 2004. This increase is due primarily to the increase in fitness and health program service revenue, which generally has higher gross margins than revenue realized from staffing services. Lower medical benefits for full-time employees also contributed to the increase in gross profit as a percent of revenue.

OPERATING EXPENSES AND OPERATING INCOME. Operating expenses decreased $48,000 to $2,344,000 for the three months ended March 31, 2005 from $2,392,000 for the three months ended March 31, 2004. This decrease is primarily attributed to a decrease in expenses associated with the Company's acquisition integration efforts that were incurred during the first quarter of 2004.

OTHER INCOME AND EXPENSE. Interest expense decreased $122,000 to $12,000 for the three months ended March 31, 2005, compared to $134,000 for the same period in 2004. This decrease is due to the non-recurrance of interest charges in connection with the December 2004 repayment of the Company's $2,000,000 Senior Subordinated Note held by Bayview Capital Partners LP, the proceeds of which were used to fund an acquisition. The Company's cost of borrowed funds decreased to 6.0% for the first quarter of 2005 from 6.6% for the first quarter of 2004.

INCOME TAXES. Income tax expense increased $225,000 to $434,000 for the three months ended March 31, 2005 compared to $209,000 for the same period in 2004. The increase is primarily due to the $523,000 increase in earnings before taxes.

NET EARNINGS APPLICABLE TO COMMON SHAREHOLDERS. As a result of the above, net earnings applicable to common shareholders for the three months ended March 31, 2005 increased $291,000 or 86.4% to $628,000 compared to $337,000 for the same period in 2004.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital increased $886,000 to $4,842,000 at March 31, 2005, compared to working capital of $3,956,000 at December 31, 2004. The increase in working capital is due primarily to an increase in accounts receivable and decreases in trade accounts payable and accrued expenses.

In addition to cash flows generated from operating activities, the Company's other source of liquidity and working capital is provided by a $7,500,000 Credit Agreement with Wells Fargo Bank, N.A. (the "Wells Loan"). The availability of the Wells Loan decreases $250,000 on the last day of each calendar quarter, beginning September 30, 2003, and matures on June 30, 2007. Working capital advances from the Wells Loan are based upon a percentage of the Company's eligible accounts receivable, less any amounts previously drawn. The facility provided maximum borrowing capacity of $5,750,000 and $6,000,000 at March 31, 2005 and December 31, 2004. Excluding current outstanding balances, $2,813,891 and $3,758,851 was available for borrowing on such respective dates.

As of March 31, 2005, the Company has no off-balance sheet arrangements or transactions with unconsolidated, limited purpose entities. Refer to the footnotes in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 for disclosure related to the Company's "Commitments and Contingencies."

The Company believes that sources of capital to meet future obligations over the next 12 months will be provided by cash generated through operations and the Company's Wells Loan. Currently, the Company does not have plans to make any significant investments in capital assets or any other one-time expenses that may affect our cash flows from investing activities.

The Company does not believe that inflation has had a significant impact on the results of its operations.

PRIVATE SECURITIES LITIGATION REFORM ACT

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Such "forward-looking" information is included in this Form 10-Q, including the MD&A section, as well as in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 that was filed with the Securities and Exchange Commission, and in other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company).

Forward-looking statements include all statements based on future expectations and specifically include, among other things, all statements relating to improving margins, growth of the market for corporate, hospital, community and university-based fitness centers, the development of new business models and the Company's intention to expand the Company's programs and services. Any statements that are not based upon historical facts, including the outcome of events that have not yet occurred and our expectations for future performance, are forward-looking statements. The words "believe," "estimate," "expect," "intend," "may," "could," "will," "plan," "anticipate," and similar words and expressions are intended to identify forward-looking statements. Such statements are based upon the current beliefs and expectations of our management. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to those matters identified and discussed in Item 1 of the Company's Form 10-K for the year ended December 31, 2004 under "Risk Factors/Forward-Looking Statements."

RECENTLY PASSED LEGISLATION

HIPPA. The Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") require group health plans and health care providers who conduct certain administrative and financial transactions electronically ("Standard Transactions") to (a) comply with a certain data format and coding standards when conducting electronic transactions; (b) use appropriate technologies to protect the security and integrity of individually identifiable health information transmitted or maintained in an electronic format; and (c) protect the privacy of patient health information. The Company's occupational health line of business, which accounts for approximately five percent of the Company's total revenue, and the group health plan the Company sponsors for its employees are subject to HIPAA's requirements. The Company expects to be in compliance with HIPPA requirements within the timeline specified for the Company's affected business areas. The Company's corporate, hospital, community and university based fitness center management lines of business are not subject to the requirements of HIPAA.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks related to changes in U.S. and international interest rates. All of the Company's long-term obligations bear interest at a variable rate. An interest rate increase by one percentage point would reduce the Company's future annual net income by approximately $16,000 at current debt levels.

The Company has no history of, and does not anticipate in the future, investing in derivative financial instruments, derivative commodity instruments or other such financial instruments. Transactions with international customers are entered into in U.S. dollars, precluding the need for foreign currency hedges.

As a result, the exposure to market risk is not material.

ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Certifying Officers have concluded (based upon their evaluation of these controls and procedures as of the end of the period covered by this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. The Certifying Officers also have indicated that there were no significant changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Item 3 (Legal Proceedings) in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

See Exhibit Index on page following signatures

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 16, 2005 HEALTH FITNESS CORPORATION

By /s/ Jerry V. Noyce

Jerry V. Noyce
Chief Executive Officer
(Principal Executive Officer)

By /s/ Wesley W. Winnekins

Wesley W. Winnekins
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX
HEALTH FITNESS CORPORATION
FORM 10-Q

Exhibit No.	Description
**10.10	Employment agreement dated December 8, 2003 between the Company and Brian Gagne*
**10.11	Employment agreement dated December 22, 2003 between the Company and Michael Seethaler*
**11.0	Statement re: Computation of Earnings per Share
**31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Indicates management contract or compensatory plan or arrangement

**Filed herewith