HEALTH FITNESS CORP /MN/
Form 10-Q
November 12, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from ____________________ to ____________________

Commission file number: 0-25064

HEALTH FITNESS CORPORATION
(Exact name of registrant as specified in its charter)

Minnesota	41-1580506
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
3500 West 80th Street, Bloomington, Minnesota	55431
(Address of principal executive offices)	(Zip Code)

(952) 831-6830
(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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. [X] Yes [ ] No

The number of shares outstanding of each of the registrant's classes of capital stock, as of November 12, 2002 was:

Common Stock, $0.01 par value, 12,297,661 shares

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CONSOLIDATED FINANCIAL STATEMENTS
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HEALTH FITNESS CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2002	Decemb 20

ASSETS

Current Assets		
Cash	$ 132,539	$
Trade and other accounts receivable, less allowance for doubtful accounts of $84,200 and $84,700	4,019,148	3,
Prepaid expenses and other	150,016	
Deferred tax asset	537,500	
Total current assets	4,839,203	4,
Property and Equipment, net	111,971	
Other Assets		
Goodwill	5,308,761	5,
Intangible assets, less accumulated amortization of $768,600 and $619,100	87,248	
Deferred tax asset	1,894,100	
Other	1,044	
	$ 12,242,327	$ 10,

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Note payable	$ 436,185	$ 1,
Trade accounts payable	176,423	
Accrued salaries, wages, and payroll taxes	1,382,428	
Other accrued liabilities	545,287	
Deferred revenue	1,287,946	1,
Total current liabilities	3,828,269	4,
Commitments and Contingencies	--	
Stockholders' Equity		
Preferred stock, $0.01 par value; 5,000,000 shares authorized; none issued or outstanding	--	
Common stock, $0.01 par value; 25,000,000 shares authorized; 12,297,661 and 12,265,250 shares issued and outstanding	122,977	
Additional paid-in capital	16,997,367	16,
Accumulated deficit	(8,706,286)	(11,
	8,414,058	6,
	$ 12,242,327	$ 10,

The accompanying notes are an integral part of the financial statements.

HEALTH FITNESS CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months End September 30,	
	2002	2001	2002	
Revenue	$ 6,934,758	$ 6,356,489	$ 20,308,959	$ 19
Cost of Revenue	5,514,309	4,837,067	15,960,684	14
Gross Profit	1,420,449	1,519,422	4,348,275	4
Operating Expenses				
Salaries	702,243	595,037	2,058,319	1
Selling, general, and administrative	463,824	601,416	1,293,757	1
Total operating expenses	1,166,067	1,196,453	3,352,076	3
Operating Income	254,382	322,969	996,199	1
Other Income (Expense)				
Interest expense	(100,586)	(108,188)	(298,710)	
Gain on sale of subsidiary	--	--	--	
Other, net	(2,967)	(16,736)	(8,254)	
Earnings Before Income Taxes	150,829	198,045	689,235	
Income Tax Expense	(28,664)	(79,169)	(259,161)	
Income Tax Benefit	655,300	64,000	1,905,900	
Net Earnings	$ 777,465	$ 182,876	$ 2,335,974	$
Net Earnings Per Share				
Basic	$ 0.06	$ 0.01	$ 0.19	$
Diluted	0.06	0.01	0.19	
Weighted Average Common Shares Outstanding				
Basic	12,289,558	12,264,163	12,173,442	12
Diluted	12,413,530	12,503,377	12,332,195	12

The accompanying notes are an integral part of the financial statements.

HEALTH FITNESS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months En September 30	
	2002	
Cash Flows From Operating Activities:		
Net earnings	$ 2,335,974	$
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Common stock and warrants issued for services and compensation	--	
Depreciation and amortization	151,273	
Amortization of financing costs	87,248	
Deferred taxes	(1,654,300)	
Gain on sale of subsidiary	--	
Changes in operating assets and liabilities:		
Trade and other accounts receivable	(630,292)	
Prepaid expenses and other	(19,926)	
Other assets	10,366	
Trade accounts payable	34,687	
Accrued liabilities	619,542	
Deferred revenue	44,000	
Net cash provided by operating activities	978,572	
Cash Flows From Investing Activities:		
Purchases of property and equipment	(26,091)	
Net proceeds from sale of subsidiary	--	
Payment for non-compete agreement	--	
Net cash provided by (used in) investing activities	(26,091)	
Cash Flows From Financing Activities:		
Borrowings under note payable	19,728,215	19
Repayments of note payable	(20,734,334)	(21
Proceeds from issuance of common stock	15,169	
Payment of financing costs	(50,000)	
Repayment of long term debt	--	
Net cash used in financing activities	(1,040,950)	(1
Net Decrease in Cash	(88,469)	
Cash at Beginning of Period	221,008	
Cash at End of Period	$ 132,539	$

The accompanying notes are an integral part of the financial statements.

HEALTH FITNESS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. They should be read in conjunction with the annual financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. 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. Operating results for the three and nine months ended September 30, 2002 are not necessarily indicative of the operating results for the year ending December 31, 2002.

Certain reclassifications have been made to the consolidated financial statements as of and for the three and nine months ended September 30, 2001 to conform to the presentation used in 2002. Such reclassifications had no effect on net earnings or stockholders' equity as previously reported.

NOTE 2. NOTE PAYABLE

The Company maintains a credit agreement with Coast Business Credit for a $5.0 million working capital facility which expires in July 2003. The facility bears interest at the prime rate plus 3.0% with a minimum rate of 9.0% (effective rate of 9.0% at September 30, 2002 and December 31, 2001). The Company is required to pay minimum monthly interest equal to the effective rate times $2.5 million. Available credit under the loan is based upon certain profitability and cash collection multiples and was approximately $1,135,000 at September 30, 2002. Borrowings under the credit agreement are secured by substantially all of the Company's assets. Additionally, the Company is subject to certain financial covenants that measure net worth, interest coverage and debt capacity. At September 30, 2002, the Company was not in compliance with the covenant that requires the Company to maintain a certain minimum tangible net worth. The tangible net worth covenant requires the inclusion of the profit and loss effect related to the recognition of deferred tax benefits, but excludes the balance sheet effect of the deferred tax asset.

On October 31, 2002, the Company entered into an annual renewable, revolving line of credit with Merrill Lynch Business Financial Services, Inc. (the "Merrill Loan") to refinance the Company's working capital facility with Coast Business Credit. The maximum funds available on the Merrill Loan are the lesser of i.) $2,750,000, or ii.) 80% of the Company's trade accounts receivable less than 90 days old. The Merrill Loan bears interest at an annual rate of 2.35% plus the One-Month LIBOR rate, or 4.09% at October 31, 2002. Borrowings under the Merrill Loan are secured by substantially all of the Company's assets. The Company is also required to comply with certain quarterly financial covenants, including covenants related to the Company's minimum tangible net worth, total liabilities to tangible net worth and fixed charge coverage.

NOTE 3. INCOME TAXES

Income taxes were calculated based on management's estimate of the Company's effective tax rate. Income taxes for the nine months ended September 30, 2002 include benefits realized from a $1,875,900 reduction of the Company's deferred tax asset valuation allowance and a $30,000 federal tax refund related to the enactment of the 2002 economic stimulus bill. These benefits are offset by

$259,200 of income tax expense, which includes the recognition of federal and state income taxes owing on taxable income, as well as management's estimate of minimum state and federal taxes due because of alternative minimum tax calculations. The reduction of the Company's deferred tax asset valuation allowance is based upon the Company's estimate of future taxable income. Based upon the Company's current assessment of future profitability, the Company expects to recognize its remaining deferred tax valuation allowance of $625,000 by December 31, 2002.

NOTE 4. SALE OF SUBSIDIARY

Effective January 2001, the Company sold its subsidiary, International Fitness Club Network ("IFCN"). The subsidiary was in the business of organizing and maintaining a network of commercial fitness and health clubs and marketing memberships in such clubs to employers and insurance companies. The Company received $425,000 and recorded a gain on sale of approximately $229,000.

NOTE 5. LEASE COMMITMENT

Effective November 1, 2002, the Company amended its corporate office lease. Under the amended lease, the Company moved its corporate headquarters to a new office in the same building complex, and extended the term of the lease through October 31, 2007. In addition to base rental payments, the lease requires the Company to pay its proportionate share of real estate taxes, special assessments, and maintenance costs. Approximate minimum rent payments under this lease are as follows:

Years ending December 31,	
2002	$ 17,000
2003	102,000
2004	104,000
2005	106,000
2006	108,000

Total minimum rent payments under the Company's current office lease was approximately $72,000 for the nine months ended September 30, 2002.

NOTE 6. RECENT ACCOUNTING PRONOUNCEMENTS AND LEGISLATION

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2002 the Company adopted Statement of Financial Accounting Standards (SFAS) 141, "Business Combinations," SFAS 142, "Goodwill and Intangible Assets," SFAS 143, "Accounting for Asset Retirement Obligations," and SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

SFAS 141 eliminates the pooling-of-interest method of accounting for business combinations and requires intangible assets acquired in business combinations to be recorded separately from goodwill. The adoption of SFAS 141 did not affect the Company's consolidated financial position or statement of earnings.

SFAS 142 eliminates the amortization of goodwill and other intangible assets with indefinite lives and requires that these assets be tested for impairment annually or whenever an impairment indicator arises using the two step impairment test outlined in SFAS 142. Effective January 1, 2002, the Company discontinued the amortization of goodwill.

The first step of the goodwill impairment test, which must be completed within six months of the effective date of SFAS No. 142, will identify potential goodwill impairment. The second step of the goodwill impairment test, which must be completed prior to the issuance of the annual financial statements, will measure the amount of goodwill impairment loss, if any. The Company completed step one of the transitional goodwill impairment test, and determined that no potential impairment exists at June 30, 2002. The Company determined that its goodwill relates to one reporting unit for purposes of impairment testing and elected to complete the impairment test of goodwill annually on December 31, 2002.

The pro forma effect of adopting SFAS 142 on net earnings and net earnings per share for the three and nine months ended September 30, 2001 compared to actual results for the three and nine months ended September 30, 2002 is noted on the following page:

	Three Months Ended September 30,		Nine Se
	2002	2001	2002
Net earnings as reported	$ 777,465	$ 182,876	$ 2,335,
Goodwill amortization	--	109,955	
Adjusted net earnings	$ 777,465	$ 292,831	$ 2,335,
Basic net earnings per share:			
Net earnings per share as reported	$ 0.06	$ 0.01	$ 0
Goodwill amortization per share	--	0.01	
Adjusted net earnings per share	$ 0.06	$ 0.02	$ 0
Diluted net earnings per share:			
Net earnings per share as reported	$ 0.06	$ 0.01	$ 0
Goodwill amortization per share	--	0.01	
Adjusted net earnings per share	$ 0.06	$ 0.02	$ 0

Amortization expense of other intangible assets totaled $33,688 and $57,900 for the three months ended September 30, 2002 and 2001, and totaled $149,486 and $173,695 for the nine months ended September 30, 2002 and 2001. Amortization expense for the succeeding years is expected to be as follows:

Years ending December 31:

2002	$ 178,571
2003	$ 58,166

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 streamlines the reporting of debt extinguishments and requires that only gains and losses from extinguishments meeting the criteria in Accounting Policies Opinion 30 will be classified as extraordinary. Thus, gains and losses arising from extinguishments that are part of a company's recurring operations will not be reported as an extraordinary item. SFAS 145 is effective for fiscal years beginning after May 15, 2002 with earlier adoption encouraged. The Company has chosen not to early-adopt SFAS No. 145. We believe the adoption of SFAS No. 145 will not have a material effect on our consolidated financial position or results of operations.

In June 2002, FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and processing for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3. SFAS No. 146 requires the recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred versus the date a company commits to an exit plan. In addition, SFAS No. 146 states the liability should be initially measured at fair value. The requirements of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. We believe the adoption of SFAS No. 146 will not have a material effect on our consolidated financial position or results of operations.

RECENTLY PASSED LEGISLATION

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Act"), which immediately impacts Securities and Exchange Commission registrants, public accounting firms, lawyers and securities analysts. This legislation is the most comprehensive since the passage of the Securities Acts of 1933 and 1934. It has far reaching effects on the standards of integrity for corporate management, board of directors, and executive management. Additional disclosures, certifications and procedures will be required of the Company. We do not expect any material adverse effect on the Company as a result of the passage of this legislation; however, the full scope of the Act has not yet been determined. The Act provides for additional regulations and requirements of publicly traded companies, which have yet to be issued.

Refer to management's certifications contained elsewhere in this report regarding the Company's compliance with Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

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

GENERAL. Health Fitness Corporation and its wholly owned subsidiaries (the "Company"), provides fitness and wellness management services and programs to corporations, hospitals, communities and universities located in the United States and Canada. Fitness and wellness management services include the development, marketing and management of corporate, hospital and community based fitness centers, injury prevention and work-injury management consulting, and on-site physical therapy. While consumers of these services are typically corporate employees and individuals interested in a healthy lifestyle, revenues are generated almost exclusively through business to business, contractual relationships.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED SEPTEMBER 30, 2002 AS COMPARED TO THE QUARTER ENDED SEPTEMBER 30, 2001.

REVENUE. Revenue increased $579,000 or 9.1% to $6,935,000 for the three months ended September 30, 2002, from $6,356,000 for the three months ended September 30, 2001. Management fees and consulting revenue increased $512,000 or 8.3% while occupational health services revenue increased $67,000 or 34.0%. These increases are attributed to the addition of new contracts in our current lines of business and the expansion of existing contracts.

GROSS PROFIT. Gross profit decreased $99,000 or 6.5% to $1,420,000 for the three months ended September 30, 2002, from $1,519,000 for the three months ended September 30, 2001. This decrease in gross profit is primarily due to higher direct costs to manage certain contracts.

OPERATING INCOME. Operating income decreased $69,000 or 21.4% to $254,000 for the three months ended September 30, 2002 from $323,000 for the three months ended September 30, 2001. Operating income was affected by a decrease in gross profit, an increase in salary expense, and a decrease in selling, general, and administrative expense. For the three months ended September 30, 2002 as compared to the three months ended September 30, 2001, salary expense increased $107,000 or 18.0% and selling, general and administrative expenses decreased $137,000 or 22.80%. The increase in salary expense is primarily attributed to additions to the sales and marketing staff and increased employee benefits costs. The decrease in selling, general, and administrative expenses is due to lower contract service expenses and the adoption of SFAS 142, which eliminates the amortization of goodwill and intangible assets with indefinite lives. The amount of amortization expense related to goodwill in the three months ended September 30, 2001 totaled $110,000.

OTHER INCOME AND EXPENSE. Interest expense decreased $7,000 to $101,000 for the three months ended September 30, 2002, compared to $108,000 for the same period in 2001. This decrease is due to decreased levels of borrowing and a lower interest rate. The Company's cost of borrowed funds decreased from an average of 9.6% for the third quarter of 2001, to 9.0% for the third quarter of 2002.

INCOME TAXES. Income taxes on a net basis decreased $642,000 to a benefit of $627,000 for the three months ended September 30, 2002 compared to an expense of $15,000 for the same period in 2001. The decrease is primarily due to a $625,000 reduction of the Company's deferred tax asset valuation allowance. The reduction of the Company's deferred tax asset valuation allowance is based upon the Company's estimate of future taxable income. The Company will continue to evaluate its results of operations and estimated future taxable income to determine when the remaining deferred tax valuation allowance of $625,000 can be reduced.

NET EARNINGS. As a result of the above, net earnings for the three months ended September 30, 2002 increased $594,000 to $777,000, compared to net earnings of

$183,000 for the same period in 2001.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AS COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2001.

REVENUE. Revenue increased $947,000 or 4.9% to $20,309,000 for the nine months ended September 30, 2002, from $19,362,000 for the nine months ended September 30, 2001. Management fee and consulting revenue increased $736,000 or 3.9% while occupational health services revenue increased $211,000 or 37.8% for the nine months ended September 30, 2002, compared to the same period in 2001. These increases are attributed to the addition of new contracts in our current lines of business and the expansion of existing contracts.

GROSS PROFIT. Gross profit decreased $26,000 or 0.6% to $4,348,000 for the nine months ended September 30, 2002, from $4,374,000 for the nine months ended September 30, 2001. This decrease in gross profit is primarily due to higher direct costs to manage certain contracts.

OPERATING INCOME. Operating income for the nine months ended September 30, 2002 decreased $63,000 to $996,000, a 5.9% decrease from $1,059,000 for the nine months ended September 30, 2001. This decrease in operating income is primarily attributed to the decrease in gross profit, an increase in salary expense of $449,000, offset by a decrease in selling, general, and administrative expenses of $412,000. The increase in salary expense is primarily attributed to additions to the sales and marketing staff and increased employee benefits costs. The decrease in selling, general, and administrative expenses is due to lower contract service expenses and the adoption of SFAS 142, which eliminates the amortization of goodwill and intangible assets with indefinite lives. The amount of amortization expense related to goodwill in the nine months ended September 30, 2001 totaled $327,000.

OTHER INCOME AND EXPENSE. Interest expense decreased $56,000 to $299,000 for the nine months ended September 30, 2002, compared to $355,000 for the same period in 2001. This decrease is due to decreased levels of borrowing and a lower interest rate. The Company's cost of borrowed funds decreased from an average of 10.6% for the nine months ended September 30, 2001, to 9.0% for the nine months ended September 30, 2002. The gain on sale of subsidiary for the nine months ended September 30, 2001 relates to the sale of the Company's IFCN subsidiary in January 2001.

INCOME TAXES. Income taxes on a net basis decreased $1,705,000 to a benefit of $1,647,000 for the nine months ended September 30, 2002 compared to an expense of $58,000 for the same period in 2001. The decrease is primarily due to a $1,876,000 reduction of the Company's deferred tax asset valuation allowance, a federal income tax refund of $30,000, which are offset by $259,000 of income tax expense. The reduction of the Company's deferred tax asset valuation allowance is based upon the Company's estimate of future taxable income. The Company will continue to evaluate its results of operations and estimated future taxable income to determine when the remaining deferred tax valuation allowance of $625,000 can be reduced. Based upon the Company's current assessment of future profitability, the Company expects to recognize its remaining deferred tax valuation allowance of $625,000 by December 31, 2002.

NET EARNINGS. As a result of the above, net earnings for the nine months ended September 30, 2002 increased $1,473,000 to $2,336,000 compared to net earnings of $863,000 for the same period in 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a credit agreement with Coast Business Credit for a $5.0 million working capital facility which expires in July 2003. The facility bears interest at the prime rate plus 3.0% with a minimum rate of 9.0% (effective rate of 9.0% at September 30, 2002 and December 31, 2001). Available credit under the loan is based upon certain profitability and cash collection multiples and was approximately $1,315,000 at September 30, 2002. Borrowings under the credit agreement are secured by substantially all of the Company's assets. Additionally, the Company is subject to certain financial covenants that measure net worth, interest coverage and debt capacity. At September 30, 2002, the Company was not in compliance with the covenant that requires the Company to maintain a certain minimum tangible net worth. The tangible net worth covenant requires the inclusion of the profit and loss effect related to the recognition of deferred tax benefits, but excludes the balance sheet effect of the deferred tax asset.

On October 31, 2002, the Company entered into an annual renewable, revolving line of credit with Merrill Lynch Business Financial Services, Inc. (the "Merrill Loan") to refinance the Company's working capital facility with Coast Business Credit. The maximum funds available on the Merrill Loan are the lesser of i.) $2,750,000, or ii.) 80% of the Company's trade accounts receivable less than 90 days old. The Merrill Loan bears interest at an annual rate of 2.35% plus the One-Month LIBOR rate, or 4.09% at October 31, 2002. Borrowings under the Merrill Loan are secured by substantially all of the Company's assets. The Company is also required to comply with certain quarterly financial covenants, including covenants related to the Company's minimum tangible net worth, total liabilities to tangible net worth and fixed charge coverage.

As of September 30, 2002, 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, 2001 for disclosure related to the Company's "Commitments and Contingencies."

On a short and long-term basis, the Company believes that sources of capital to meet future obligations will be provided by cash generated through operations and the Company's Merrill Loan. The Company does not believe that inflation has had a significant impact on its results of its operations.

Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 streamlines the reporting of debt extinguishments and requires that only gains and losses from extinguishments meeting the criteria in Accounting Policies Opinion 30 will be classified as extraordinary. Thus, gains and losses arising from extinguishments that are part of a company's recurring operations will not be reported as an extraordinary item. SFAS 145 is effective for fiscal years beginning after May 15, 2002 with earlier adoption encouraged. The Company has chosen not to early-adopt SFAS No. 145. We believe the adoption of SFAS No. 145 will not have a material effect on our consolidated financial position or results of operations.

In June 2002, FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and processing for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3. SFAS No. 146 requires the recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred versus the date a company commits to an exit plan. In addition, SFAS No. 146 states the liability should be initially measured at fair value. The requirements of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. We believe the adoption of SFAS No. 146 will not have a material effect on our consolidated financial position or results of operations.

CAUTIONARY STATEMENT

This Form 10-Q contains forward-looking statements within the meaning of federal securities laws. These statements include statements regarding intent, belief, or current expectations of the Company and its management and specifically include the statement regarding cash expected to be available from operations and Management's expectations concerning the time period in which the Company will be able to recognize its remaining deferred tax valuation allowance of $625,300. These forward-looking statements are not guarantees of the future performance and involve a number of risks and uncertainties that may cause the Company's actual results to differ materially from the results discussed in these statements. Please refer to Management's Discussion and Analysis contained within the Company's Annual Report on Form 10-K for the year ended December 31, 2001, for cautionary statements on important factors to consider in evaluating the forward-looking statements included in this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure. The Certifying Officers also have indicated that there were no significant changes in the Company's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Item 3 (Legal Proceedings) of the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

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

(a) The Annual Meeting of the Company's shareholders was held on Monday, May 13, 2002.

(b) Proxies for the Annual Meeting were solicited pursuant to Regulation A under the Securities Exchange Act of 1934. There was no solicitation in opposition to management's nominees, and the following persons were elected directors of the Company to serve until the next annual meeting of shareholders:

Nominee	Number of Votes For	Number of Votes Withheld
James A. Bernards	10,367,316	147,123
K. James Ehlen, M.D.	10,447,986	66,453
Jerry V. Noyce	10,423,686	90,753
John C. Penn	10,447,986	66,453
Mark W. Sheffert	10,368,316	146,123
Linda Hall Whitmen	10,318,316	196,123
Rodney A. Young	10,447,986	66,453

(c) By a vote of 10,012,410 shares in favor, 446,179 shares opposed, 55,850 shares abstaining, and no shares represented by broker nonvotes, the shareholders approved a 300,000 share increase in the number of shares issuable under the Company's 1995 Employee Stock Purchase Plan.

(d) By a vote of 10,453,527 shares in favor, 4,678 shares opposed, 56,234 shares abstaining, and no shares represented by broker nonvotes, the shareholders approved the selection of Grant Thornton LLP as the Company's independent auditors for the current fiscal year.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index on page following signatures

(b) Reports on Form 8-K

On August 13, 2002, the Company filed a Current Report on Form 8-K to announce that Jerry V. Noyce, Chief Executive Officer, and Wesley W. Winnekins, Chief Financial Officer, of Health Fitness Corporation had submitted correspondence to the Securities and Exchange Commission pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

On October 28, 2002, the Company filed a Current Report on Form 8-K to announce that the Company had issued a press release announcing that it has been selected by 3M to develop and operate onsite employee fitness centers at the company's headquarters in St. Paul, Minnesota.

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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: November 12, 2002 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)

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SARBANES-OXLEY SECTION 302 CERTIFICATION

I, Jerry Noyce, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Health Fitness Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

By /s/ Jerry V. Noyce

Jerry V. Noyce
Chief Executive Officer

SARBANES-OXLEY SECTION 302 CERTIFICATION

I, Wesley Winnekins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Health Fitness Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

By /s/ Wesley Winnekins

Wesley Winnekins
Chief Financial Officer

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBIT INDEX
HEALTH FITNESS CORPORATION
FORM 10-Q

Exhibit No.	Description
3.1	Articles of Incorporation, as amended, of the Company - incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1997
3.2	Restated By-Laws of the Company - incorporated by reference to the Company's Registration Statement on Form SB-2 No. 33-83784C
4.1	Specimen of Common Stock Certificate - incorporated by reference to the Company's Registration Statement on Form SB-2 No. 33-83784C
10.1	Agreement of Purchase and Sale of Stock of David W. Pickering, Inc. dated January 1, 2001 - incorporated by reference to the Company's Quarterly Report on form 10-QSB for the quarter ended September 30, 2001
10.13	Second Amendment, dated September 12, 2002, to Lease Agreement between the Company and United Properties Investment LLC, a Minnesota limited liability company - incorporated by reference to the Company's Quarterly Report on form 10-QSB for the quarter ended June 30, 2002
10.14	WCMA Loan and Security Agreement dated October 31, 2002 between the Company and Merrill Lynch Business Financial Services, Inc.
11.0	Statement re: Computation of Earnings per Share
99.1	Certification by Jerry Noyce, Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification by Wesley Winnekins, Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002