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Health Fitness Corp /MN/  
Form 10-Q  
August 14, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

COMMISSION FILE NO. 000-25064

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

MINNESOTA  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

NO. 41-1580506  
(IRS EMPLOYER  
IDENTIFICATION NO.)

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

REGISTRANT'S TELEPHONE NUMBER (952) 831-6830

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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 ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The number of shares outstanding of the registrant's common stock as of August 10, 2006 was: Common Stock, \$0.01 par value, 18,931,718 shares

HEALTH FITNESS CORPORATION  
CONSOLIDATED FINANCIAL STATEMENTS  
TABLE OF CONTENTS

	PAGE
	----
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements (unaudited)	
Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005	3
Consolidated Statements of Earnings for the three and six months ended June 30, 2006 and 2005	4
Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005	5
Notes to Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3. Quantitative and Qualitative Disclosures About Market Risk	17
Item 4. Controls and Procedures	17
PART II. OTHER INFORMATION	18
Item 1. Legal Proceedings	18
Item 1A. Risk Factors	18
Items 2-3. Not Applicable	18
Item 4. Submission of Matters to a Vote of Security Holders	18
Item 5. Other Information	19
Item 6. Exhibits	19
Signatures	20
Exhibit Index	21

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	June 30, 2006	Decem 2
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,295,045	\$ 1,4
Trade and other accounts receivable, less allowances of \$183,300 and \$200,700	9,270,835	8,8
Prepaid expenses and other	644,506	5
Deferred tax assets	347,701	3
	-----	-----
Total current assets	11,558,087	11,1
PROPERTY AND EQUIPMENT, net	413,122	3
OTHER ASSETS		
Goodwill	13,005,498	12,9
Software, less accumulated amortization of \$176,200 and \$0	1,749,531	1,7
Customer contracts, less accumulated amortization of \$1,746,500 and \$1,626,100	68,472	1
Trademark, less accumulated amortization of \$196,700 and \$147,000	296,432	3
Other intangible assets, less accumulated amortization of \$129,700 and \$88,000	399,414	4
Deferred tax assets	366,300	3
Other	35,434	
	-----	-----
	\$27,892,290	\$27,5
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	\$ 565,423	\$ 6
Accrued salaries, wages, and payroll taxes	2,922,422	2,6
Other accrued liabilities	370,396	7
Accrued self funded insurance	344,297	2
Deferred revenue	1,752,863	1,8
	-----	-----
Total current liabilities	5,955,401	6,2
LONG-TERM OBLIGATIONS	--	
COMMITMENTS AND CONTINGENCIES	--	
WARRANT OBLIGATION	--	2,2
PREFERRED STOCK, \$0.01 par value, 10,000,000 shares authorized, 0 and 1,000 issued and outstanding	--	8,6
STOCKHOLDERS' EQUITY		
Common stock, \$0.01 par value; 50,000,000 shares authorized; 18,931,718 and 13,787,349 shares issued and outstanding	189,317	1
Additional paid-in capital	25,733,284	15,6
Accumulated comprehensive income	372	
Accumulated deficit	(3,986,084)	(5,2
	-----	-----
	21,936,889	10,4
	-----	-----
	\$27,892,290	\$27,5
	=====	=====

See notes to consolidated financial statements.

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## HEALTH FITNESS CORPORATION CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
REVENUE	\$15,575,130	\$13,678,615	\$30,142,391	\$27,143,391
COSTS OF REVENUE	11,415,116	10,227,999	22,377,897	20,251,999
GROSS PROFIT	4,160,014	3,450,616	7,764,494	6,892,392
OPERATING EXPENSES				
Salaries	1,805,533	1,406,562	3,484,367	2,794,367
Other selling, general and administrative	1,560,098	942,631	2,996,339	1,679,631
Amortization of acquired intangible assets	107,610	219,754	216,072	439,754
Total operating expenses	3,473,241	2,568,947	6,696,778	4,913,752
OPERATING INCOME	686,773	881,669	1,067,716	1,979,640
OTHER INCOME (EXPENSE)				
Interest expense	(2,470)	(16,326)	(4,150)	(28,326)
Change in fair value of warrants	406,694	--	841,215	--
Other, net	14,071	(340)	10,061	(1,340)
EARNINGS BEFORE INCOME TAXES	1,105,068	865,003	1,914,842	1,948,314
INCOME TAX EXPENSE	377,594	345,220	527,695	779,220
NET EARNINGS	727,474	519,783	1,387,147	1,169,094
Dividend to preferred shareholders	--	21,600	96,410	43,600
NET EARNINGS APPLICABLE TO COMMON SHAREHOLDERS	\$ 727,474	\$ 498,183	\$ 1,290,737	\$ 1,126,494
NET EARNINGS PER SHARE:				
Basic	\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.04
Diluted	0.02	0.03	0.03	0.03
WEIGHTED AVERAGE COMMON SHARES:				
Basic	18,831,169	12,652,370	17,005,769	12,636,370
Diluted	20,310,830	16,618,997	20,305,674	16,617,370

See notes to consolidated financial statements.

## HEALTH FITNESS CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Six Months Ended  
June 30,

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	2006	2005
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$1,290,737	\$ 1,169,317
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	241,033	39,066
Amortization	219,434	431,574
Warrant valuation	(841,215)	--
Compensation for stock options	238,404	--
Deferred taxes	(1,701)	663,251
Loss on disposal of assets	158	--
Changes in operating assets and liabilities, net of assets acquired:		
Trade and other accounts receivable	(431,789)	54,838
Prepaid expenses and other	(135,234)	(213,399)
Other assets	11,671	20,707
Trade accounts payable	(122,572)	(243,113)
Accrued liabilities and other	(69,927)	(445,723)
Deferred revenue	(115,583)	(150,603)
	-----	-----
Net cash provided by operating activities	283,416	1,325,915
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(301,748)	(34,749)
Other	(85,807)	(7,084)
Business acquisition	--	--
	-----	-----
Net cash used in investing activities	(387,555)	(41,833)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under note payable	--	12,440,808
Repayments of note payable	--	(14,030,793)
Costs from issuance of preferred stock	(161,725)	--
Proceeds from issuance of common stock	85,698	73,328
Proceeds from the exercise of stock options	3,706	11,428
	-----	-----
Net cash used in financing activities	(72,321)	(1,505,229)
	-----	-----
NET DECREASE IN CASH	(176,460)	(221,147)
CASH AT BEGINNING OF PERIOD	1,471,505	241,302
	-----	-----
CASH AT END OF PERIOD	\$1,295,045	\$ 20,155
	=====	=====
Supplemental cash flow information:		
Cash paid for interest	\$ 788	\$ 28,876
Cash paid for taxes	475,817	226,750
Noncash financing activities affecting cash flow:		
Conversion of warrant liability to additional paid in capital	1,369,674	--
Dividend to preferred shareholders	--	43,200

See notes to consolidated financial statements.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements for the three and six months ended June 30, 2006 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, 2005 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, 2005, and footnotes thereto included in the Company's Form 10-K as filed with the United States Securities and Exchange Commission on March 30, 2006.

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 and six months ended June 30, 2006 are not necessarily indicative of the operating results that may be expected for the year ended December 31, 2006.

#### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Business** - We provide fitness and health management services and programs to corporations, governmental units, 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 our Company and our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

**Cash** - We maintain cash balances at several financial institutions, and at times, such balances exceed insured limits. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on cash. At June 30, 2006 and December 31, 2005, we had cash of approximately \$2,612 and \$24,468 (U.S. Dollars) in a Canadian bank account.

**Trade and Other Accounts Receivable** - Trade and other accounts receivable represent amounts due from companies and individuals for services and products. We grant credit to customers in the ordinary course of business, but generally do not require collateral or any other security to support amounts due. Management performs ongoing credit evaluations of customers. We determine our allowance for discounts and doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, the customer's current ability to pay its obligation to us, and the condition of the general economy and the industry as a whole. We

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write 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.

6

**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. We elected to complete the annual impairment test of goodwill on December 31 of each year and determined that our goodwill relates to one reporting unit for purposes of impairment testing.

**Intangible Assets** - Our intangible assets include customer contracts, trademarks and tradenames, software and other intangible assets, all of which are amortized on a straight-line basis. Customer contracts represent the fair value assigned to acquired management contracts, which are amortized over the remaining life of the contracts, approximately 10-20 months. Trademark and tradenames represent the value assigned to acquired trademarks and tradenames, and are amortized over a period of five years. Software represents the value assigned to an acquired web-based software program and is amortized over a period of five years. Other intangible assets include the value assigned to acquired customer lists, which is amortized over a period of six years, as well as deferred financing costs, which 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. We determine our allowance for discounts by considering historical discount history and current payment practices of our customers. 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.

We have contracts with third-parties 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 us based on transactions with the ultimate customer. We do 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.

Amounts received from new customers for website activation fees are treated as deferred revenue and recognized over a period of three years, which is the estimated life of a new customer.

**Valuation of Derivative Instruments** - In accordance with the interpretive guidance in EITF Issue No. 05-4, "The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a

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Company's Own Stock", we value warrants we issued in November 2005 in our financing transaction as a derivative liability. We must make certain periodic assumptions and estimates to value the derivative liability. Factors affecting the amount of this liability include changes in our stock price, the computed volatility of our stock price and other assumptions. The change in value is reflected in our statements of operations as non-cash income or expense, and the changes in the carrying value of derivatives can have a material impact on our financial statements. For the quarter and six months ended June 30, 2006, we recognized non-cash income of \$406,694 and \$841,215, respectively, upon revaluation of certain warrants that are subject to this accounting treatment. The derivative liability associated with these warrants is reflected on our balance sheet as of December 31, 2005 as a long-term liability.

On June 15, 2006, we reached an agreement with the investors owning these warrants to amend the terms of the investment documents, which resulted in the warrants to be reflected as equity. As a result of this accounting change, we made a final valuation of our warrant liability on June 15, 2006, which resulted in non-cash income of \$406,694 for our second quarter, and the remaining warrant liability of \$1,369,674 was reclassified to additional paid in capital. We are no longer required to revalue these warrants on a prospective basis.

7

**Comprehensive Income** - Comprehensive income represents net earnings adjusted for foreign currency translation adjustments. Total comprehensive income was \$1,289,864 and \$1,127,838 for the six months ended June 30, 2006 and 2005.

**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. For the three and six months ended June 30, 2006, diluted net earnings per share is computed by dividing net earnings applicable to common shareholders, plus dividends to preferred shareholders (net earnings), less the non-cash benefit related to a change in fair value of warrants by the number of weighted average common shares outstanding, and common share equivalents relating to stock options, stock warrants, and stock warrants accounted for as a liability, if dilutive. For the three and six months ended June 30, 2005, 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, if dilutive. Refer to Exhibit 11.0 attached hereto for a detail computation of earnings per share.

Common stock options and warrants to purchase 1,955,272 and 450,000 shares of common stock were excluded from the calculation for the three months ended June 30, 2006 and 2005, and 1,988,270 and 375,000 were excluded from the calculation for the six months ended June 30, 2006 and 2005 because their exercise price exceeded the average trading price of the Company's common stock during each of the periods.

**Stock-based Compensation** - We maintain a stock option plan for the benefit of certain eligible employees and directors of the Company. We have authorized 3,500,000 shares for grant under our 2005 Stock Option Plan, and a total of 706,350 shares of common stock are reserved for additional grants of options at June 30, 2006. Our stock options generally vest ratably over four years of service and have a contractual life of 6 years.

Commencing January 1, 2006, we adopted Statement of Financial Accounting Standard No. 123R, "Share Based Payment" ("SFAS 123R"), which requires all



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share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values over the requisite service period. The compensation cost we record for these awards will be based on their grant date fair value as calculated for the proforma disclosures required by Statement 123. The Company recorded \$162,945 and \$238,404 of related compensation expense, included in salaries within our operating expenses section, for the three and six months ended June 30, 2006. We also recorded a deferred tax benefit of \$65,178 and \$95,362 for the three and six months ended June 30, 2006 in connection with recording this non-cash expense. This deferred tax benefit will be adjusted based upon the actual tax benefit realized from the exercise of the underlying stock options. The compensation expense reduced diluted earnings per share by less than \$0.01 for the three months ended June 30, 2006, and by approximately \$0.01 for the six months ended June 30, 2006.

As of June 30, 2006, approximately \$879,000 of total unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of approximately 2.97 years.

Prior to adopting SFAS 123R, we accounted for stock-based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." We have applied the modified prospective method in adopting SFAS 123R. Accordingly, periods prior to adoption have not been restated.

8

The following table summarizes information about stock options at June 30, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life In Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.30 - \$0.39	406,075	1.26	\$0.33	364,675	\$0.33
0.47 - 0.69	596,650	1.95	0.56	594,150	0.56
0.95 - 1.25	279,000	4.15	1.17	162,000	1.15
1.26 - 2.27	435,100	4.19	1.89	327,550	1.82
2.28 - 3.00	891,000	4.22	2.72	369,500	2.79
	-----			-----	
	2,607,825	3.26	\$1.55	1,817,875	\$1.25
	=====			=====	

We use the Black-Scholes option pricing model to determine the weighted average fair value of options. The weighted average fair value of options granted during the three month periods ended June 30, 2006 and 2005 were \$0.77 and \$0.94, respectively. The fair value of options at date of grant and the assumptions utilized to determine such values are indicated in the following table:

Three Months Ended  
June 30,  
-----

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	2006	2005
	----	----
Risk-free interest rate	4.97%	2.87%
Expected volatility	52.6%	69.0%
Expected life (in years)	3.00	2.20
Dividend yield	--	--

Option transactions under the 2005 Stock Option Plan during the second quarter ended June 30, 2006 are summarized as follows:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Term
	-----	-----	-----	-----
Outstanding at March 31, 2006	2,504,175	\$1.53		
Granted	105,000	\$1.93		
Exercised	(1,350)	\$0.43		
Canceled/Forfeited	--	--		
	-----	-----	-----	-----
Outstanding at June 30, 2006	2,607,825	\$1.55	\$1,546,629	3.26
Exercisable at June 30, 2006	1,817,875	\$1.25	\$1,412,830	2.62

Option transactions under the 2005 Stock Option Plan during the six months ended June 30, 2006 are summarized as follows:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Term
	-----	-----	-----	-----
Outstanding at December 31, 2005	2,157,425	\$1.34		
Granted	455,500	\$2.52		
Exercised	(3,850)	\$0.96		
Canceled/Forfeited	(1,250)	\$1.25		
	-----	-----	-----	-----
Outstanding at June 30, 2006	2,607,825	\$1.55	\$1,546,629	3.26
Exercisable at June 30, 2006	1,817,875	\$1.25	\$1,412,830	2.62

The aggregate intrinsic value of options exercised during the quarter ended June 30, 2006 was \$2,390. Cash received from the exercise of options for the quarter ended June 30, 2006 was \$581 and the related tax benefit realized was \$232. The total number of options that vested during the quarter ended June 30, 2006 was 120,000 with a fair value of \$100,500.

Fair Values of Financial Instruments - Due to their short-term nature, the carrying value of our current financial assets and liabilities approximates

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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 November 14, 2005 (the "Effective Date"), in a Private Investment in Public Equity transaction (the "PIPE Transaction"), we issued an aggregate of 1,000 shares of Series B Convertible Preferred Stock (the "Series B Stock"), together with warrants to purchase 1,530,000 shares of common stock at \$2.40 per share, to a limited number of accredited investors for aggregate gross proceeds of \$10.2 million. After selling commissions and expenses, we received net proceeds of approximately \$9.4 million. The Series B Stock automatically converted into 5,100,000 shares of our common stock on March 10, 2006, the date the Securities and Exchange Commission (the "SEC") first declared effective a registration statement covering these shares. Each share of Series B Stock was entitled to a number of votes equal to the number of shares of common stock into which it was then convertible. Except as required by law, holders of Series B Stock were entitled to vote together as one class with holders of common stock. Each share of Series B Stock had a stated dividend rate of 5% per year calculated based upon the initial share issuance price of \$10,200. We used the proceeds from this PIPE Transaction to redeem our Series A Convertible Preferred Stock and to fund the acquisition of HealthCalc.Net, Inc.

In accordance with the terms of the PIPE Transaction, we were required to file with the SEC, within sixty (60) days from the Effective Date, a registration statement covering the common shares issued and issuable in the PIPE Transaction. We were also required to cause the registration statement to go effective on or before the expiration of one hundred twenty (120) days from the Effective Date. We would have been subject to liquidated damages of one percent (1%) per month of the aggregate gross proceeds (\$10,200,000), if we failed to meet these date requirements. On March 10, 2006, the SEC declared effective our Form S-1 registration statement and, as a result, we did not pay any liquidated damages for failure to meet the filing and effectiveness date requirements. We could nevertheless be subject to the foregoing liquidated damages if we fail to maintain the effectiveness of the registration statement. On June 15, 2006, we entered into an agreement with the accredited investors to amend the Registration Rights Agreement to cap the amount of liquidated damages we could pay at 9% of the aggregate purchase price paid by each accredited investor.

The warrants, which were issued together with the Series B Stock, have a term of five years, and give the investors the option to require us to repurchase the warrants for a purchase price, payable in cash within five (5) business days after such request, equal to the Black Scholes value of any unexercised warrant shares, only if, while the warrants are outstanding, any of the following change in control transactions occur: (i) we effect any merger or consolidation, (ii) we effect any sale of all or substantially all of our assets, (iii) any tender offer or exchange offer is completed whereby holders of our common stock are permitted to tender or exchange their shares for other securities, cash or property, or (iv) we effect any reclassification of our common stock whereby it is effectively converted into or exchanged for other securities, cash or property. On June 15, 2006, we entered into an agreement with the accredited investors to amend the Warrant Agreement to give us the ability to repurchase the warrants, in the case of a change in control transaction, using shares of

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stock, securities or assets, including cash.

10

Under EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (EITF 00-19), the fair value of the warrants issued under the PIPE Transaction have been reported as a liability due to the requirement to net-cash settle the transaction. There are two reasons for this treatment: (i) there are liquidated damages, payable in cash, of 1% of the gross proceeds per month (\$102,000) should we fail (subject to certain permitted circumstances) to maintain effectiveness of the registration statement in accordance with the PIPE Transaction; and (ii) the investors may put their warrants back to us for cash if a change in control transaction that meets the definition previously discussed occurs. On June 15, 2006, we reached an agreement with the investors owning these warrants to amend the terms of the investment documents, which resulted in the warrants to be reflected as equity. As a result of this accounting change, we made a final valuation of our warrant liability on June 15, 2006, which resulted in non-cash income of \$406,694 for our second quarter, and the remaining warrant liability of \$1,369,674 was reclassified to additional paid in capital. We are no longer required to revalue these warrants on a prospective basis.

### 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. We do not record a tax liability or benefit in connection with the change in fair value of certain of our warrants. 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%.

11

### 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 interim 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, 2005.

**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 Note 2 to the interim consolidated financial statements included in this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

**GENERAL.** We provide fitness and health management services and programs to

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corporations, governmental units, 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

The following table sets forth our statement of operations data as a percentage of total revenues and also sets forth other financial and operating data for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
REVENUE	100.0%	100.0%	100.0%	100.0%
COSTS OF REVENUE	73.3	74.8	74.2	74.6
GROSS PROFIT	26.7	25.2	25.8	25.4
OPERATING EXPENSES				
Salaries	11.6	10.3	11.6	10.3
Other selling, general and administrative	10.0	6.9	9.9	6.2
Amortization of acquired intangible assets	0.7	1.6	0.7	1.6
Total operating expenses	22.3	18.8	22.2	18.1
OPERATING INCOME	4.4	6.4	3.6	7.3
OTHER INCOME (EXPENSE)	2.7	(0.1)	2.8	(0.1)
EARNINGS BEFORE INCOME TAXES	7.1	6.3	6.4	7.2
INCOME TAX EXPENSE	2.4	2.5	1.8	2.9
NET EARNINGS	4.7	3.8	4.6	4.3
Dividend to preferred shareholders	--	0.2	0.3	0.2
NET EARNINGS APPLICABLE TO COMMON SHAREHOLDERS	4.7%	3.6%	4.3%	4.1%

### OTHER FINANCIAL AND OPERATING DATA:

Three Months Ended June 30,		Six Months Ended June 30,	
2006	2005	2006	2005

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Fitness Management Revenue				
Staffing Services	\$ 9,969,192	\$ 9,528,699	\$19,692,076	\$19,044,876
Program and Consulting Services	647,865	634,202	1,225,808	1,116,873
	-----	-----	-----	-----
	10,617,057	10,162,901	20,917,884	20,161,749
	-----	-----	-----	-----
Health Management Revenue				
Staffing Services	3,266,531	3,011,348	6,375,403	6,099,339
Program and Consulting Services	1,691,542	504,366	2,849,104	882,628
	-----	-----	-----	-----
	4,958,073	3,515,714	9,224,507	6,981,967
	-----	-----	-----	-----
Total Revenue				
Staffing Services	13,235,723	12,540,047	26,067,479	25,144,215
Program and Consulting Services	2,339,405	1,138,567	4,074,912	1,999,501
	-----	-----	-----	-----
	\$15,575,130	\$13,678,615	\$30,142,391	\$27,143,716
	-----	-----	-----	-----

RESULTS OF OPERATIONS FOR THE QUARTER ENDED JUNE 30, 2006 AS COMPARED TO THE QUARTER ENDED JUNE 30, 2005.

REVENUE. Revenues increased \$1,896,000, or 13.9%, to \$15,575,000 for the three months ended June 30, 2006, from \$13,679,000 for the three months ended June 30, 2005. This increase is attributable to revenue growth of \$1,511,000 from new contracts and incremental business from existing contracts, in addition to revenue growth of \$385,000 from HealthCalc, a company we acquired in December 2005. For the second quarter, health management revenue grew 41.0% and fitness management grew 4.5% over the same period last year.

GROSS PROFIT. Gross profit increased \$709,000, or 20.6%, to \$4,160,000 for the three months ended June 30, 2006, from \$3,451,000 for the three months ended June 30, 2005. This increase is due primarily to our revenue growth.

As a percent of revenue, gross profit increased to 26.7%, from 25.2% for the second quarter of 2005. This increase is due primarily to the new health management business we have recently won.

OPERATING EXPENSES. Operating expenses increased \$904,000, or 35.2%, to \$3,473,000 for the three months ended June 30, 2006, from \$2,569,000 for the three months ended June 30, 2005.

Of this increase, approximately \$455,000 is attributed to salaries, operating expenses and asset depreciation related to our acquisition of HealthCalc. In addition, we incurred approximately \$163,000 of stock option compensation expense in the second quarter of 2006 in connection with our adoption of SFAS 123R on January 1, 2006. The remaining cost increase of \$286,000 is primarily due to additional staff we hired during 2005 to execute our health management business plan. We expect to continue incurring these costs at varying levels on a quarterly basis.

OTHER INCOME AND EXPENSE. Interest expense decreased \$14,000 to \$2,000 for the three months ended June 30, 2006, compared to \$16,000 for the same period in 2005. This decrease is due to the repayment of our Wells Fargo credit line. Our cost of borrowed funds was 6.8% for the second quarter of 2005.

For the quarter ended June 30, 2006, we recorded a \$407,000 non-cash benefit related to a change in fair value for 1,530,000 warrants we issued in connection with the sale of \$10.2 million of our Series B Convertible Preferred Stock in November 2005. Refer to the section titled "Summary of Significant Accounting

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Policies," Valuation of Derivative Instruments, contained elsewhere in this document for further discussion of the accounting we use to value these warrants.

13

INCOME TAXES. Income tax expense increased \$33,000 to \$378,000 for the three months ended June 30, 2006 compared to \$345,000 for the same period in 2005. The increase is primarily due to changes in permanent and temporary timing differences between book and tax balances for stock option expense, change in fair value of warrants, depreciation and amortization, prepaid expenses and vacation accruals.

NET EARNINGS APPLICABLE TO COMMON SHAREHOLDERS. As a result of the above, and the cessation of dividends payable to preferred shareholders, net earnings applicable to common shareholders for the three months ended June 30, 2006 increased \$229,000, or 46.0%, to \$727,000, from \$498,000 for the three months ended June 30, 2005.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AS COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2005.

REVENUE. Revenues increased \$2,999,000, or 11.0%, to \$30,142,000 for the six months ended June 30, 2006, from \$27,144,000 for the six months ended June 30, 2005. This increase is attributable to revenue growth of \$2,022,000 from new contracts and incremental business from existing contracts as discussed below, in addition to revenue growth of \$977,000 from HealthCalc. For the first six months, health management revenue grew 32.1% and fitness management grew 3.8% over the same period last year..

During the first six months of 2006, we have won a number of new contracts, as well as expanded our services at existing contracts, within our Health Management and Fitness Management business areas. In Health Management, we have won twenty-six new contracts, and expanded five existing contracts, which may realize annualized incremental revenue of approximately \$6.4 million. In Fitness Management, we have won seven new contracts, and expanded one existing contract, which may realize annualized incremental revenue of \$2.7 million. The value of our new and expanded contracts is a forward looking statement, is based upon an estimate of the anticipated annualized incremental revenue, and should be used only as an indication of the sales activity we have recently experienced in our two business areas. These estimates should not be considered an indication of the total incremental revenue growth we expect to generate in 2006, or in any year, as actual growth may differ from these estimates due to actual staffing levels, participation rates and contract duration, in addition to other revenue we may lose due to contract termination.

GROSS PROFIT. Gross profit increased \$872,000, or 12.7%, to \$7,764,000 for the six months ended June 30, 2006, from \$6,892,000 for the six months ended June 30, 2005. This increase is due primarily to our revenue growth.

As a percent of revenue, gross profit increased to 25.8%, from 25.4% for the six months ended June 30, 2005. This increase is due primarily to the new health management business we have recently won.

OPERATING EXPENSES. Operating expenses increased \$1,784,000, or 36.3%, to \$6,697,000 for the six months ended June 30, 2006, from \$4,913,000 for the six months ended June 30, 2005.

Of this increase, approximately \$883,000 is due to salaries, operating expenses

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and asset depreciation related to our acquisition of HealthCalc. In addition, we incurred approximately \$238,000 of stock option compensation expense for the six months ended June 30, 2006 in connection with our adoption of SFAS 123R on January 1, 2006. The remaining cost increase of \$663,000 is primarily due to additional staff we hired during 2005 to execute our health management business plan. We expect to continue incurring these costs at varying levels on a quarterly basis.

OTHER INCOME AND EXPENSE. Interest expense decreased \$24,000 to \$4,000 for the six months ended June 30, 2006, compared to \$28,000 for the same period in 2005. This decrease is due to the repayment of our Wells Fargo credit line. Our cost of borrowed funds was 6.0% for the second quarter of 2005.

For the six months ended June 30, 2006, we recorded an \$841,000 non-cash benefit related to a change in fair value for 1,530,000 warrants we issued in connection with the sale of \$10.2 million of our Series B Convertible Preferred Stock in November 2005. Refer to the section titled "Summary of Significant Accounting Policies," Valuation of Derivative Instruments, contained elsewhere in this document for further discussion of the accounting we use to value these warrants.

14

INCOME TAXES. Income tax expense decreased \$252,000 to \$528,000 for the six months ended June 30, 2006, compared to \$780,000 for the same period in 2005. The decrease is primarily due to the \$911,000 decrease in operating income along with no tax liability associated with the \$841,000 non-cash benefit related to the revaluation of our warrants.

NET EARNINGS APPLICABLE TO COMMON SHAREHOLDERS. As a result of the above changes, which were partially offset by an increase in dividends paid to preferred shareholders, net earnings applicable to common shareholders for the six months ended June 30, 2006 increased \$165,000, or 14.6%, to \$1,291,000, from \$1,126,000 for the six months ended June 30, 2005.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital increased \$708,000 to \$5,603,000 at June 30, 2006, compared to working capital of \$4,895,000 at December 31, 2005. The increase in working capital is due primarily to an increase in trade and other accounts receivable and prepaid expense, and decreases in trade accounts payable, other accrued liabilities and deferred revenue. These were offset by a decrease in cash and increases to accrued salaries and accrued self funded insurance.

In addition to cash flows generated from operating activities, our other primary source of liquidity and working capital is provided by a \$7,500,000 Credit Agreement with Wells Fargo Bank, N.A. (the "Wells Loan"). At our option, the Wells Loan bears interest at prime, or the one-month LIBOR plus a margin of 2.25% to 2.75% based upon our Senior Leverage Ratio (effective rate of 8.25% and 7.25% at June 30, 2006 and December 31, 2005). 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, 2008, as amended. Working capital advances from the Wells Loan are based upon a percentage of our eligible accounts receivable, less any amounts previously drawn. The facility provided maximum borrowing capacity of \$4,500,000 and \$5,000,000 at June 30, 2006 and December 31, 2005. Excluding current outstanding balances, and based upon eligible accounts receivable, \$4,500,000 and \$5,000,000 was available for borrowing on such respective dates. All borrowings are collateralized by substantially all of our assets. At June 30, 2006, we were in compliance with



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all of our financial covenants.

On November 14, 2005 (the "Effective Date"), in a Private Investment in Public Equity transaction (the "PIPE Transaction"), we issued an aggregate of 1,000 shares of Series B Convertible Preferred Stock (the "Series B Stock"), together with warrants to purchase 1,530,000 shares of common stock at \$2.40 per share, to a limited number of accredited investors for aggregate gross proceeds of \$10.2 million. After selling commissions and expenses, we received net proceeds of approximately \$9.4 million. The Series B Stock automatically converted into 5,100,000 shares of our common stock on March 10, 2006, the date the Securities and Exchange Commission (the "SEC") first declared effective a registration statement covering these shares. We used the proceeds from this PIPE Transaction to redeem our Series A Convertible Preferred Stock and to fund the acquisition of HealthCalc.Net, Inc.

In accordance with the terms of the PIPE Transaction, we were required to file with the SEC, within sixty (60) days from the Effective Date, a registration statement covering the common shares issued and issuable in the PIPE Transaction. We were also required to cause the registration statement to be declared effective on or before the expiration of one hundred twenty (120) days from the Effective Date. We would have been subject to liquidated damages of one percent (1%) per month of the aggregate gross proceeds (\$10,200,000), if we failed to meet these date requirements. On March 10, 2006, the SEC declared effective our registration statement and, as a result, we did not pay any liquidated damages for failure to meet the filing and effectiveness date requirements. We could nevertheless be subject to the foregoing liquidated damages if we fail (subject to certain permitted circumstances) to maintain the effectiveness of the registration statement. On June 15, 2006, we entered into an agreement with the accredited investors to amend the Registration Rights Agreement to cap the amount of liquidated damages we could pay at 9% of the aggregate purchase price paid by each accredited investor.

15

The warrants, which were issued together with the Series B Stock, have a term of five years, and give the investors the option to require us to repurchase the warrants for a purchase price, payable in cash within five (5) business days after such request, equal to the Black Scholes value of any unexercised warrant shares, only if, while the warrants are outstanding, any of the following change in control transactions occur: (i) we effect any merger or consolidation, (ii) we effect any sale of all or substantially all of our assets, (iii) any tender offer or exchange offer is completed whereby holders of our common stock are permitted to tender or exchange their shares for other securities, cash or property, or (iv) we effect any reclassification of our common stock whereby it is effectively converted into or exchanged for other securities, cash or property. On June 15, 2006, we entered into an agreement with the accredited investors to amend the Warrant Agreement to give us the ability to repurchase the warrants, in the case of a change in control transaction, using shares of stock, securities or assets, including cash.

Under EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (EITF 00-19"), the fair value of the warrants issued under the PIPE Transaction have been reported as a liability due to the requirement to net-cash settle the transaction. There are two reasons for this treatment: (i) there are liquidated damages, payable in cash, of 1% of the gross proceeds per month (\$102,000) should we fail to maintain effectiveness of the registration statement in accordance with the PIPE Transaction; and (ii) our investors may put their warrants back to us for cash if we initiate a change in control that meets the definition previously

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discussed. As a result of the agreement amendments we structured with the accredited investors on June 15, 2006, we were allowed to account for the warrants as equity. On June 15, 2006, we reached an agreement with the investors owning these warrants to amend the terms of the investment documents, which resulted in the warrants to be reflected as equity. As a result of this accounting change, we made a final valuation of our warrant liability on June 15, 2006, which resulted in non-cash income of \$406,694 for our second quarter, and the remaining warrant liability of \$1,369,674 was reclassified to additional paid in capital. We are no longer required to revalue these warrants on a prospective basis.

### OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2006, we have no off-balance sheet arrangements or transactions with unconsolidated, limited purpose entities.

We believe that sources of capital to meet future obligations over the next 12 months will be provided by cash generated through operations and our Wells Loan. Currently, we do 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.

We do not believe that inflation has had a significant impact on the results of our 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 our Annual Report on Form 10-K for the year ended December 31, 2005 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 increasing revenue, improving margins, growth of the market for corporate, hospital, community and university-based fitness centers, the development of new business models, our ability to expand our programs and services and the sufficiency of our liquidity and capital resources. 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 Part II, Item 1A of this Form 10-Q (if any), and in Item 1 of the Company's Form 10-K for the year ended December 31, 2005 under "Risk Factors/Forward-Looking Statements."

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### RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements, tax positions taken or expected to be taken on a tax return, including the decision whether to file or not to file in a particular jurisdiction. FIN 48 is effective for fiscal years beginning after December 15, 2006. If there are changes in net assets as a result of application of FIN 48, these changes will be accounted for as an adjustment to retained earnings. We are currently assessing the impact of FIN 48 on our consolidated financial position and results of operations.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are 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.

We have no history of, and do 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, our exposure to market risk is not material.

### ITEM 4. CONTROLS AND PROCEDURES

Our 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 our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit 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 our 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, our internal control over financial reporting.

17

### 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, 2005.

#### Item 1A. Risk Factors

In addition to the other information set forth in this report, including the important information in "Private Securities Litigation Reform Act," you should carefully consider the "Risk Factors" discussed in our Annual Report on Form 10-K for the year ended December 31, 2005. Those factors, if they were to occur, could cause our actual results to differ materially from those expressed in our forward-looking statements in this report, and materially adversely affect our financial condition or future results. Although we are not aware of any other

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factors that we currently anticipate will cause our forward-looking statements to differ materially from our future actual results, or materially affect the Company's financial condition or future results, additional risks and uncertainties not currently known to us or that we currently deem to be immaterial might materially adversely affect our actual business, financial condition and/or operating results.

### 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

(a) The Annual Meeting of the Company's shareholders was held on Tuesday, May 23, 2006.

(b) Proxies for the Annual Meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934. There was no solicitation in opposition to management's nominees, and the shareholders elected the following persons as 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	12,689,457	232,619
K. James Ehlen, M.D	12,523,386	398,690
Robert J. Marzec	12,689,457	232,619
Jerry V. Noyce	12,687,957	234,119
John C. Penn	12,689,457	232,619
Mark W. Sheffert	12,690,457	231,619
Linda Hall Whitman	12,690,457	231,619
Rodney A. Young	12,689,457	232,619

(c) By a vote of 5,178,739 shares in favor, 708,831 shares opposed, 9,606 shares abstaining, and 7,024,900 shares represented by broker nonvotes, the shareholders approved an increase in the number of shares reserved under the 1995 Stock Purchase Plan from 700,000 to 1,000,000.

(d) By a vote of 4,977,012 shares in favor, 910,008 shares opposed, 10,156 shares abstaining, and 7,024,900 shares represented by broker nonvotes, the shareholders approved an increase in the number of shares reserved under the 2005 Stock Option Plan from 3,500,000 to 4,000,000.

18

(e) By a vote of 12,643,174 shares in favor, 267,523 shares opposed, 11,379 shares abstaining, and 0 shares represented by broker nonvotes, the shareholders ratified the selection of Grant Thornton LLP as the Company's independent auditors for the current fiscal year.

### Item 5. Other Information

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(a) Although not required to be contained in a report on Form 8-K, Mr. Mark W. Sheffert has replaced Mr. John C. Penn as Chairman of the Board effective May 9, 2006.

### Item 6. Exhibits

(a) Exhibits - See Exhibit Index on page following signatures

19

### 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: August 14, 2006

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)

20

### EXHIBIT INDEX HEALTH FITNESS CORPORATION FORM 10-Q

Exhibit No. -----	Description -----
**11.0	Statement re: Computation of Earnings per Share
**10.1	Fourth Amendment to Credit Agreement, dated June 6, 2006, Between Wells Fargo Bank, N.A. and Health Fitness Corporation
**10.2	Form of Amendment No.1 to Warrant Agreement Between Certain Accredited Investors and Health Fitness Corporation
**10.3	Form of Amendment No. 1 to Registration Rights Agreement Between Certain Accredited Investors and Health Fitness Corporation

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- \*\*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