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HEALTH FITNESS CORP /MN/  
Form 10-K  
April 04, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

Commission File Number: 0-25064

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

MINNESOTA  
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41-1580506  
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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

3600 W. 80th STREET, SUITE 560, BLOOMINGTON, MINNESOTA, 55431  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (952) 831-6830

Securities registered under Section 12(b) of the Act:  
NONE

Securities registered under Section 12(g) of the Act:  
COMMON STOCK, \$.01 PAR VALUE

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

As of June 30, 2002, the aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the last quoted price at which such stock was sold on such date as reported by the OTC Bulletin Board, was approximately \$4,029,000.

As of March 28, 2003, 12,322,908 shares of the registrant's common stock, \$.01 par value, were outstanding.

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### ITEM 1. BUSINESS

#### OVERVIEW

Health Fitness Corporation, and its wholly-owned subsidiaries (collectively, the "Company"), provides fitness and wellness management services and programs to corporations, hospitals, communities and universities located in the United States and Canada. Additionally, the Company provides injury prevention programs and on-site physical therapy services. The Company's executive offices are located at 3600 W. 80th Street, Suite 560, Bloomington, Minnesota 55431, and its telephone number is (952) 831-6830.

Effective on January 1, 2001, the Company sold its International Fitness Club Network (IFCN) line of business, which organized and maintained a network of commercial fitness and health clubs and marketed memberships in such clubs to employees and insurance companies. IFCN accounted for approximately \$656,000 in revenues and \$612,000 in direct costs during 2000.

#### FITNESS AND WELLNESS MANAGEMENT SERVICES AND PROGRAMS

**FITNESS CENTER MANAGEMENT.** The Company has been providing results-oriented fitness center management and consulting services since 1975. The Company currently is under contract to manage 187 corporate and 8 hospital, community or university based fitness centers located across the United States and Canada.

Major corporations and hospitals invest in fitness centers and wellness programs for several reasons. First, there is a body of research that indicates that healthier employees are more productive, experience reduced levels of stress and are absent from work less often due to sickness. Additionally, wellness benefits, and fitness benefits in particular, are considered high priorities as potential employees evaluate job opportunities with a given employer. Hospitals invest in fitness centers to create a new revenue source that is not subject to insurance or government reimbursements and to address community health initiatives. The Company's sales staff markets to corporations, hospitals, communities and universities primarily through telemarketing and direct mail initiatives.

**CONSULTING SERVICES.** The Company provides a full range of development, management and marketing services for corporate, hospital, community and university-owned fitness centers. For the development of new fitness centers, the Company provides a wide selection of consulting services, including demographic analysis, space planning, interior design, floor plan design, selection and sourcing of fitness equipment and fitness program design. Once a fitness center is established, the Company generally manages all aspects of fitness center operation, including fitness staff selection, development and implementation of programs, as well as general fitness and facility management supported by well-defined quality assurance guidelines.

**PROGRAM SERVICES.** The Company has invested considerable time and resources developing a full menu of fee-for-service programs and services to better meet the fitness, wellness and health needs of its individual customers. These programs and services include:

**HFC ASSESSMENT SERVICES.** A full range of tools to assess the health and well-being of selected individuals, including health risk assessments, screenings, data management and education. General wellness or specific assessments provide measurable results and a pathway for effective intervention.

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HFC WELLNESS PROGRAMS. A comprehensive menu of lifestyle programs addressing the specific issues facing a company's workforce, including nutrition, weight loss, smoking cessation, stress management, back care, massage therapy and educational seminars.

HFC FITNESS PROGRAMS. Customized exercise-based programs to meet individual, group and company needs, including personal training, back care and specialty group exercise classes.

HFC TREATMENT SERVICES. On-site services designed to provide an effective model to prevent, manage and treat musculo-skeletal disorders in the work environment. Services include needs analysis and regulatory compliance consulting, ergonomic injury prevention and discomfort management. Currently, the Company provides preventative and rehabilitative physical therapy and occupational health services at 15 corporate sites in California, Colorado, Kentucky and Texas.

### COMPETITION

Within the business-to-business fitness center management industry, there are relatively few national competitors. However, virtually all markets are home to regional providers that manage anywhere from one or two sites to several sites across state lines. With its national presence and over 25 years of history, management believes that the Company is recognized as the leader in providing fitness management services and is well positioned to compete in this industry.

### PROPRIETARY RIGHTS

The Company does not believe it has any significant proprietary rights.

### GOVERNMENT REGULATION

Management believes that there currently is no significant government regulation which materially limits the Company's ability to provide fitness management and consulting services to its corporate, hospital, community and university-based clients.

### EMPLOYEES

At December 31, 2002, the Company had 514 full-time and 1,758 part-time employees. The Company's part-time employees are primarily engaged in the staffing of the fitness centers that the Company operates for its clients. The Company currently does not have a collective bargaining relationship with its employees and management believes its relationship with employees is good.

### INDEMNIFICATION OBLIGATIONS

A majority of the Company's management contracts with its customers include a provision that obligates the Company to indemnify and hold harmless the customer and their employees, officers and directors from any and all claims, actions and/or suits (including attorneys' fees) arising directly or indirectly from any act or omission of the Company or its employees, officers or directors in connection with the operation of the Company's business. A majority of these management contracts also include a provision that obligates the customer to indemnify and hold the Company harmless against all liabilities arising out of the acts or omissions of the customer, their employees and agents. The Company can make no assurance that claims by its customers, or their employees, officers or directors, will not be made in the course of operating the Company's business.

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### INSURANCE

The Company maintains general premises liability insurance of \$10,000,000 per occurrence and \$10,000,000 in the aggregate per location for each of its fitness centers and its executive offices. While the Company believes its insurance policies to be sufficient in amount and coverage for its current operations, there can be no assurance that coverage will continue to be available in adequate amounts or at a reasonable cost, and there can be no assurance that the insurance proceeds, if any, will cover the full extent of loss resulting from any claims. The Company does not expect to incur any material rate increases relative to the renewal of its liability insurance policies.

### ITEM 2. PROPERTIES

The Company leases approximately 8,000 square feet of commercial office space at 3600 W. 80th Street, Bloomington, Minnesota 55431, under a lease that expires in October 2007. The Company's monthly base rent for this office space is approximately \$8,500, plus taxes, insurance and other related operating costs.

### ITEM 3. LEGAL PROCEEDINGS

In April 2000, HealthSouth Corporation filed a lawsuit against the Company and two former employees in U.S. District Court in Minnesota arising out of HealthSouth's purchase of several rehabilitation and physical therapy clinics from the Company in May 1999. HealthSouth claimed that the two former employees improperly diverted business away from the purchased clinics. HealthSouth claimed damages in excess of \$3,000,000, alleging misrepresentations and breaches of warranties in the purchase agreement.

In February 2002, the U.S District Court in Minneapolis dismissed all of HealthSouth's claims in connection with a summary judgment motion filed by the Company, and issued an order awarding the Company a judgment of \$43,156 for its counter claim relating to certain accounts receivable. The final outcome of this matter is pending on the outcome of an appeal made by HealthSouth.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matters to a vote of security holders during the quarter ended December 31, 2002.

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Trading of the Company's common stock is conducted in the over-the-counter markets (often referred to as "pink sheets") or on the OTC Bulletin Board.

The following table sets forth, for the periods indicated, the range of low and high sale prices for the Company's common stock.

Fiscal Year 2002:	Low	High
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Fourth quarter	\$0.35	\$0.59
Third quarter	0.34	0.60
Second quarter	0.45	0.76
First quarter	0.31	0.51

Fiscal Year 2001:	Low	High
	---	----
Fourth quarter	\$0.35	\$0.81
Third quarter	0.55	0.95
Second quarter	0.41	0.80
First quarter	0.33	0.78

At March 28, 2003, the published high and low sale prices for the Company's common stock were \$0.41 and \$0.41 per share respectively. At March 28, 2003, there were issued and outstanding 12,322,908 shares of common stock of the Company held by 372 shareholders of record. Record ownership includes ownership by nominees who may hold for multiple owners.

The Company has never declared or paid any cash dividends on its common stock and does not intend to pay cash dividends on its common stock in the foreseeable future. The Company presently expects to retain any earnings to finance the development and expansion of its business. The payment of dividends, if any, is subject to the discretion of the Board of Directors, and will depend on the Company's earnings, financial condition, capital requirements and other relevant factors.

In 2000, 2002 and 2003, 41,672, 32,411 and 25,247 common shares respectively, were issued to Company employees in connection with their purchase of stock through the Company's Employee Stock Purchase Plan.

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ITEM 6. SELECTED FINANCIAL DATA

The information in the following table for each of the five years in the period ended December 31, 2002, has been audited by Grant Thornton LLP. The data given below as of and for each of the five years in the period ended December 31, 2002, has been derived from the Company's Audited Consolidated Financial Statements. Such data should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included elsewhere herein and in conjunction with Managements Discussion and Analysis of Financial Condition and Results of Operation.

	Years Ended December 31,			
	2002	2001	2000	1999
	-----	-----	-----	-----
STATEMENT OF OPERATIONS DATA:				
REVENUE	\$27,865,000	\$25,910,000	\$26,191,000	\$26,191,000
INCOME (LOSS) FROM CONTINUING OPERATIONS	3,001,000	1,806,000	930,000	(1,400,000)

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INCOME (LOSS) PER SHARE FROM CONTINUING  
OPERATIONS:

Basic	0.24	0.15	0.08
Diluted	0.24	0.15	0.07

BALANCE SHEET DATA (AT DECEMBER 31):

TOTAL ASSETS	12,956,000	10,199,000	10,399,000	11,32
LONG-TERM DEBT	--	--	25,000	42
SHAREHOLDERS' EQUITY	9,079,000	6,063,000	4,195,000	3,19

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

BUSINESS DESCRIPTION

Health Fitness Corporation provides fitness and wellness management services and programs to corporations, hospitals, communities and universities located in the United States and Canada. Fitness center based services include the development, marketing, and management of corporate, hospital, and community-based fitness centers, health related programming, and on-site physical therapy and occupational health services. 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.

Effective January 1, 2001, the Company sold IFCN, which maintained and sold memberships in a network of independently-owned and operated commercial fitness and health clubs.

CRITICAL ACCOUNTING POLICIES

The following discussion and analysis of the Company's financial condition and results of operations is based upon their consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, trade and other accounts receivable, goodwill, and stock-based compensation. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. Management bases its estimates and judgments on historical experience, observation of trends in the industry, information provided by customers and other outside sources and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of

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assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of their consolidated financial statements.

Revenue Recognition - Revenue is recognized at the time the service is provided

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to the customer. For annual contracts, monthly amounts are recognized ratably over the term of the contract. Certain services provided to the customer may vary on a periodic basis and are invoiced to the customer. The revenues relating to these services are estimated in the month that the service is performed. Amounts received from customers in advance of providing the services of the contract are treated as deferred revenue and recognized when the services are provided. The Company has 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 the Company based on transactions with the ultimate customer. The Company does not recognize revenues related to such transactions as the ultimate customer assumes the risk and rewards of the contract and the amounts billed to the customer are either at cost or with a fixed markup.

Trade and Other Accounts Receivable - Trade and other accounts receivable represent amounts due from companies and individuals for services and products. The Company grants credit to customers in the ordinary course of business, but generally does not require collateral or any other security to support amounts due. Management performs ongoing credit evaluations of customers. The Company maintains allowances for potential credit losses which, when realized, have been within management's expectations. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers and their geographic dispersion.

Goodwill - Goodwill represents the excess of the purchase price and related costs over the fair value of net assets of businesses acquired. Prior to January 1, 2002 goodwill was amortized on a straight-line basis over 15 to 20 years. On January 1, 2002, the Company adopted SFAS 142 "Goodwill and Intangible Assets", and discontinued the amortization of goodwill. The carrying value of goodwill and other intangible assets 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. Goodwill totaling \$74,000 was written off during 2001 relating to the sale of a subsidiary.

Stock-Based Compensation - The Company utilizes the intrinsic value method of accounting for its stock based employee compensation plans. All options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and accordingly, no compensation cost is reflected in net earnings for the years ended December 31, 2002, 2001, and 2000.

### RESULTS OF OPERATIONS

#### YEARS ENDED DECEMBER 31, 2002 AND 2001

REVENUE. Revenue increased \$1,955,000 or 7.5% to \$27,865,000 for 2002, from \$25,910,000 for 2001. Management fees and consulting revenue increased \$1,761,000 or 7.1% while occupational health services revenue increased \$194,000 or 23.1%. These increases are attributed to the addition of new contracts in our current lines of business and the expansion of our services under existing contracts.

GROSS PROFIT. Gross profit increased \$122,000 or 2.1% to \$5,927,000 for 2002, from \$5,805,000 for 2001. This increase in gross profit is due to the increase in revenue discussed previously. Gross profit as a percent of revenue decreased to 21.3% for 2002 from 22.4% for 2001. This decrease as a percent of revenue is primarily due to higher costs to manage certain contracts, including one contract the Company

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obtained in early 2002 whereby the Company agreed to pay for all operating costs of 24 corporate fitness centers.

**OPERATING EXPENSES AND OPERATING INCOME.** Operating expenses increased 174,000 or 3.9% to \$4,617,000 for 2002, from \$4,443,000 for 2001. This increase is due to a \$749,000 increase in salary expense, which was partially offset by a \$574,000 decrease in selling, general and administrative expenses. The increase in salaries expense is primarily attributed to an investment in additional sales and marketing staff and increased employee benefits costs. The decrease in selling, general, and administrative expenses is due to lower contract employee and professional service expenses, as well as the adoption of SFAS 142, which eliminated amortization expense of \$401,000 associated with goodwill and intangible assets with indefinite lives.

As a result of the previously discussed changes in Gross Profit and Operating Expenses, Operating income decreased \$53,000 or 3.9% to \$1,309,000 for 2002, from \$1,362,000 for 2001.

**OTHER INCOME AND EXPENSE.** Interest expense increased \$57,000 to \$521,000 for 2002, from \$464,000 for 2001. This increase is primarily due to the write-off of unamortized financing costs and loan termination charges incurred in connection with the Company's termination of its credit agreement with Coast Business Credit.

The gain on sale of subsidiary for 2001 represents the net proceeds received upon the sale of the Company's IFCN subsidiary in January 2001.

**INCOME TAXES.** Current income tax expense decreased \$74,000 to a benefit of \$3,000 for 2002, from an expense of \$71,000 for 2001. This decrease is primarily due to the \$311,000 decrease in the Company's earnings before income taxes.

The Company's deferred income tax benefit increased \$1,432,000 to a benefit of \$2,209,000 for 2002, from a benefit of \$777,000 for 2001. This increase is primarily due to the recognition of the Company's remaining deferred tax valuation allowance. As of December 31, 2002, there is no deferred tax asset valuation allowance.

**NET EARNINGS.** As a result of the above, net earnings for 2002 increased \$1,195,000 to \$3,001,000, compared to net earnings of \$1,806,000 for 2001.

### YEARS ENDED DECEMBER 31, 2001 AND 2000

**REVENUE.** Revenues decreased \$281,000 or 1.1% to \$25,910,000 for 2001, from \$26,191,000 for 2000. This decrease is primarily attributed to a \$656,000 loss of revenue related to the sale of IFCN in January 2001. In addition, in July 2001, the Company lost a significant corporate contract, which decreased revenue approximately \$441,000 from 2000. The Company also experienced a \$154,000 decrease in nonrecurring revenue between periods, which includes payments received for consulting services, fitness equipment purchases, performance bonuses and contract buyouts. By the end of 2001, the Company was able to partially offset these revenue decreases with new, recurring management revenues of approximately \$970,000.

**GROSS PROFIT.** Gross profit decreased \$581,000 or 9.1% to \$5,805,000 for 2001, from \$6,386,000 for 2000. Also, gross profit as a percent of revenue decreased to 22.4% for 2001 from 24.4% for 2000. These decreases are due to the following reasons:

1. Approximately \$223,000 of gross profit was lost as a result of the sale of IFCN. Since IFCN had a higher ratio of gross profit to revenue than the Company's other lines of business for 2000



(34% compared to 24%), the effect of this sale caused a 0.3 percentage points decrease between periods. This loss of gross profit, however, was replaced by a gain on sale of approximately \$229,000, which has been recorded as Other Income (Expense) in the Company's Consolidated Statement of Operations.

2. The \$154,000 decrease in nonrecurring revenue discussed previously also contributed to the decrease in gross profit as no direct expenses were incurred to produce this revenue. This revenue decrease caused the ratio of gross profit to revenue to decrease approximately 0.4 percentage points between periods.
3. In the Company's corporate fitness line of business, approximately \$106,000 of additional unreimburseable staff compensation and benefit costs was incurred during 2001 on fixed fee management contracts. This caused a comparative decrease in the ratio of gross profit to revenue of approximately 0.4 percentage points.
4. In the Company's hospital/community fitness line of business, a net gross profit decrease of approximately \$110,000 occurred between 2001 and 2000 as additional fitness staff were added to new contracts during 2001 while management fees stayed fixed. These staff increases caused the ratio of gross profit to revenue to decrease approximately 0.5 percentage points between years.

OPERATING EXPENSES AND OPERATING INCOME. Operating expenses decreased \$295,000 to \$4,443,000 for 2001, from \$4,738,000 for 2000. Operating expenses as a percent of revenue decreased to 17.1% for 2001 from 18.1% for 2000. Salaries for 2001 increased \$277,000 to \$2,117,000 from \$1,840,000 for 2000. This increase is primarily attributed to the addition of new executive management staff subsequent to the completion of the Company's turnaround efforts, as well as non-cash stock-based compensation charges incurred with the issuance of stock to five new members of the board of directors in accordance with the Company's director compensation plan. Selling, general and administrative expenses decreased \$192,000 to \$2,326,000 for 2001 from \$2,518,000 for 2000. This decrease is primarily attributed to lower selling expenses, and a continued focus on eliminating unnecessary operating expenses. Re-engineering expenses did not occur during 2001 as the Company had completed its turnaround process by the end of 2000.

Operating income decreased \$286,000 to \$1,362,000 for 2001, from \$1,648,000 for 2000. This decrease is the net result of the changes in gross profit and operating expenses discussed previously.

INTEREST EXPENSE. Interest expense decreased \$218,000 to \$464,000 for 2001, from \$682,000 for 2000. This decrease is due to lower average borrowings, lower interest rates and fees.

GAIN ON SALE OF SUBSIDIARY. The gain on sale of subsidiary represents the net proceeds realized upon the sale of IFCN.

OTHER INCOME (EXPENSE). Other income (expense) increased \$39,000 to an expense of \$27,000 for 2001, from income of \$12,000 for 2000. The expense for 2001 relates primarily to the write-off of fitness equipment that had been acquired by the Company in connection with the prior management of certain fitness centers.

INCOME TAXES. Income taxes decreased \$754,000 to a benefit of \$706,000 for 2001,

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from an expense of \$48,000 for 2000. The Company has been consistently profitable on a quarterly basis over the past two years, and it is expected to continue this trend. Therefore, the Company reduced its deferred tax valuation allowance. This change in estimate resulted in a 2001 income tax benefit of \$777,000.

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### LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital increased \$869,000 to \$1,250,000 for 2002, from \$381,000 for 2001. This increase is largely due to the increase in accounts receivable and the reduction of notes payable.

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 borrowings available on the Merrill Loan are the lesser of \$2,750,000, or 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 3.77% at December 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 December 31, 2002, the Company was in compliance with all of its financial covenants under the Merrill Loan.

As of December 31, 2002, the Company has no off-balance sheet arrangements or transactions with unconsolidated, limited purpose entities. Refer to the footnotes to the Company's Consolidated Financial Statements contained herein 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 its 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.

### OUTLOOK AND TRENDS

The U.S. economy has been experiencing recessionary pressures, which has resulted in many large companies laying-off a significant number of employees. A few of the Company's customers have been affected by this economic downturn, which has resulted in the decrease of fitness staff at some locations. At other locations, the Company has been faced with contract cancellations. Management believes that the effect of this economic downturn has not been material to the Company's results of operation. In fact, Management believes that major corporations will continue to make significant investments into employee fitness facilities and programs as a way to retain existing employees, as well as to recruit new employees when hiring needs increase. As one of the largest providers of corporate fitness services, the Company is poised to meet the needs of these companies.

An emerging trend within corporate fitness management relates to companies asking service providers to operate their fitness center on a cost-neutral or for-profit basis. These cost-conscious companies desire to minimize or eliminate the subsidization of fitness center operating costs by keeping costs within the revenues being realized from employee memberships and other sources of revenue. In connection with this form of business model, the Company would derive its management fee revenue not from its corporate client, but from the profits of

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the fitness center. In the case of a company that is developing a new fitness center for its employees, the application of this business model may require the Company to fund operating losses until enough memberships are sold to realize profitability. The Company believes it may have to fund operating losses for such centers up to twelve months before profitability is reached. However, the Company believes this model will enable the Company to leverage its experience managing for-profit fitness centers, and may result in higher gross margins and profitability. Currently, existing contracts representing this business model do not represent a material contribution to the Company's results of operation. There can be no assurance that the Company will be able to manage such centers profitably or to fund losses for these centers until profitability is achieved.

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Lastly, the Company intends to expand its revenue opportunities by offering additional wellness services and programs to its existing client base, including additional health assessment and screening services, wellness programs and educational seminars, personal fitness programming and workplace injury assessment, prevention and treatment services. There can be no assurance that the Company will be successful introducing these additional programs and services to its existing customers.

### 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-K, including the MD&A section, as well as in the Company's Annual Report to be 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 statements relating to improving margins, growth of the market for corporate, hospital, community and university-based fitness centers, the development of new business models and the intention to expand the Company's programs and services. 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, leverage and debt service (including sensitivity to fluctuations in interest rates) continued expansion of corporate, hospital, community and university-based fitness center opportunities, and availability of sufficient working capital.

The following risks and uncertainties also should be noted:

### POTENTIAL DEPRESSIVE EFFECT ON PRICE OF COMMON STOCK ARISING FROM EXERCISE AND SALE OF EXISTING CONVERTIBLE SECURITIES:

At December 31, 2002, the Company had outstanding stock options and stock purchase warrants to purchase an aggregate of 2,038,997 shares of common stock. The exercise of such outstanding stock options and stock purchase warrants and sale of stock acquired thereby may have a material adverse effect on the price of the Company's common stock. In addition, the exercise of such outstanding stock options and stock purchase warrants and sale of such Company's common stock could occur at a time when the Company would otherwise be able to obtain additional equity capital on terms and conditions more favorable to the Company.

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### MANAGEMENT OF COST-NEUTRAL OR FOR-PROFIT CENTERS:

The Company has, on a limited basis, implemented its model of managing corporate fitness centers on a cost-neutral or for-profit basis without receiving a management fee from the corporate owner of such centers. Corporate owned centers are resistant to significant membership fees and fee increases, and the Company may not be successful in sufficiently managing costs and/or in raising service levels and associated revenues, as required to achieve profit objectives.

### RECENTLY PASSED LEGISLATION

SARBANES-OXLEY. 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 securities legislation 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.

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

### 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." The Company has chosen not to early-adopt SFAS No. 145 and believes the adoption of SFAS No. 145 will not have a material effect on the consolidated financial position or results of operations.

In June 2002, FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The Company believes that the adoption of the SFAS No. 146 will not have a material adverse effect on its consolidated financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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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.

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Balance Sheets of the Company as of December 31, 2002 and 2001, and the related Consolidated Statements of Earnings, Stockholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 2002, and the notes thereto have been audited by Grant Thornton LLP, independent certified public accountants.

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#### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors  
Health Fitness Corporation  
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of Health Fitness Corporation and subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted

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in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Health Fitness Corporation and subsidiaries as of December 31, 2002 and 2001 and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002.

We have also audited Schedule II of Health Fitness Corporation and subsidiaries for each of the three years in the period ended December 31, 2002. In our opinion, this schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information therein.

/s/ Grant Thornton LLP  
 Minneapolis, Minnesota  
 February 13, 2003

HEALTH FITNESS CORPORATION

CONSOLIDATED BALANCE SHEETS  
 DECEMBER 31, 2002 AND 2001

	2002
	-----
ASSETS	
CURRENT ASSETS	
Cash	\$ 91,658
Trade and other accounts receivable, less allowance for doubtful accounts of \$83,500 and \$84,700 at December 31, 2002 and 2001	4,036,888
Prepaid expenses and other	266,734
Deferred tax assets	731,500
	-----
Total current assets	5,126,780
PROPERTY AND EQUIPMENT, net	176,206
OTHER ASSETS	
Goodwill	5,308,761
Intangible assets, less accumulated amortization of \$1,300 and \$619,100 at December 31, 2002 and 2001	6,380
Deferred tax assets	2,254,876

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Other	82,808
	-----
	\$ 12,955,811
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Note payable	\$ 304,589
Trade accounts payable	409,150
Accrued salaries, wages, and payroll taxes	1,072,982
Other accrued liabilities	415,856
Accrued benefits	267,042
Deferred revenue	1,407,437
	-----
Total current liabilities	3,877,056

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 at December 31, 2002 and 2001	122,977
Additional paid-in capital	16,997,367
Accumulated deficit	(8,041,589)
	-----
	9,078,755
	-----
	\$ 12,955,811
	=====

See notes to consolidated financial statements.

HEALTH FITNESS CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
	-----	-----	-----
REVENUE	\$ 27,864,997	\$ 25,909,978	\$ 26,190,671
COSTS OF REVENUE	21,938,385	20,105,139	19,804,356
	-----	-----	-----
GROSS PROFIT	5,926,612	5,804,839	6,386,315
OPERATING EXPENSES			
Salaries	2,866,200	2,117,407	1,840,436
Selling, general, and administrative	1,751,228	2,325,583	2,517,634
Re-engineering	-	-	380,103
	-----	-----	-----
Total operating expenses	4,617,428	4,442,990	4,738,173
	-----	-----	-----

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OPERATING INCOME	1,309,184	1,361,849	1,648,142
OTHER INCOME (EXPENSE)			
Interest expense	(521,106)	(464,039)	(681,847)
Gain on sale of subsidiary	-	228,613	-
Other, net	950	(26,707)	12,321
	-----	-----	-----
EARNINGS BEFORE INCOME TAXES	789,028	1,099,716	978,616
INCOME TAX EXPENSE (BENEFIT)	(2,211,643)	(706,285)	48,447
	-----	-----	-----
NET EARNINGS	\$ 3,000,671	\$ 1,806,001	\$ 930,169
	=====	=====	=====
NET EARNINGS PER SHARE:			
Basic	\$ 0.24	\$ 0.15	\$ 0.08
Diluted	0.24	0.15	0.07
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	12,284,364	12,232,283	12,133,085
Diluted	12,428,440	12,433,715	12,451,095

See notes to consolidated financial statements.

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HEALTH FITNESS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULA DEFICI
	SHARES	AMOUNT		
BALANCE AT JANUARY 1, 2000	12,112,015	\$ 121,120	\$ 16,855,438	\$ (13,778)
Issuance of common stock in connection with contract services and incentive compensation	9,500	95	6,780	
Issuance of common stock through stock purchase plan	41,672	417	12,054	
Issuance of common stock through earnout provisions	2,063	21	8,231	
Issuance of warrants in connection with professional services rendered	-	-	39,000	
Net earnings	-	-	-	930
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2000	12,165,250	121,653	16,921,503	(12,848)
Issuance of common stock for board of directors compensation	100,000	1,000	54,000	
Repricing of warrants previously issued	-	-	3,234	
Issuance of options in connection with professional services rendered	-	-	3,785	
Net earnings	-	-	-	1,806



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BALANCE AT DECEMBER 31, 2001	12,265,250	122,653	16,982,522	(11,042)
Issuance of common stock through stock purchase plan	32,411	324	14,845	
Net earnings	-	-	-	3,000
BALANCE AT DECEMBER 31, 2002	12,297,661	\$ 122,977	\$ 16,997,367	\$( 8,041)

See notes to consolidated financial statements.

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HEALTH FITNESS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net earnings	\$ 3,000,671
Adjustment to reconcile net earnings to net cash provided by operating activities:	
Common stock, options, and warrants issued for professional services and compensation	-
Depreciation and amortization	175,239
Amortization of financing costs	175,774
Deferred taxes	(2,209,076)
(Gain) loss on disposal of assets	-
Asset impairment	-
Gain on sale of subsidiary	-
Change in assets and liabilities:	
Trade and other accounts receivable	(648,032)
Prepaid expenses and other	(136,644)
Other assets	(71,398)
Trade accounts payable	267,414
Accrued liabilities and other	447,707
Deferred revenue	163,491
Discontinued operations	-
Net cash provided by operating activities	1,165,146
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(114,293)
Net proceeds from sale of subsidiary	-
Payments in connection with earn-out provisions	-
Collection of notes receivable	-
Payment of non-compete agreement	-
Net cash provided by (used in) investing activities	(114,293)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings under note payable	24,663,045
Repayments of note payable	(25,800,760)
Repayments of subordinated debt	-

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Repayments of long term obligations	-
Payment of financing costs	(57,657)
Proceeds from the issuance of common stock	15,169
Discontinued operations	-
	-----
Net cash used in financing activities	(1,180,203)
	-----
NET INCREASE (DECREASE) IN CASH	(129,350)
	-----
CASH AT BEGINNING OF YEAR	221,008
	-----
CASH AT END OF YEAR	\$ 91,658
	=====

### SUPPLEMENTAL CASH FLOW DISCLOSURES

Supplemental cash flow information and noncash investing and financing activities:

	2002	2001	2000
	-----	-----	-----
Cash paid for interest	\$362,100	\$358,980	\$ 617,482
Assignment of note payable and note receivable to third party	-	-	408,166

See notes to consolidated financial statements.

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### HEALTH FITNESS CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

#### 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - Health Fitness Corporation and its wholly owned subsidiaries (the Company) provide 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, community and university based fitness centers, injury prevention and work-injury management consulting, and on-site physical therapy. Programs include wellness and health programs for individual customers, including health risk assessments, nutrition and weight loss programs, smoking cessation, massage therapy, back care and ergonomic injury prevention.

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

Cash and Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less to be

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

Trade and Other Accounts Receivable - Trade and other accounts receivable represent amounts due from companies and individuals for services and products. The Company grants credit to customers in the ordinary course of business, but generally does not require collateral or any other security to support amounts due. Management performs ongoing credit evaluations of customers. The Company maintains allowances for potential credit losses which, when realized, have been within management's expectations. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers and their geographic dispersion.

Property and Equipment - Property and equipment is 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. Prior to January 1, 2002 goodwill was amortized on a straight-line basis over 15 to 20 years. On January 1, 2002, the Company adopted SFAS 142 "Goodwill and Intangible Assets", and discontinued the amortization of goodwill (see note 8).

The carrying value of goodwill and other intangible assets 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. Goodwill totaling \$74,000 was written off during 2001 relating to the sale of a subsidiary (see note 2).

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HEALTH FITNESS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

Intangible Assets - The Company's intangible assets include deferred financing costs, noncompete agreements, and other intangible assets. Deferred financing costs are amortized on a straight-line method over the term of the credit agreement. Noncompete agreements consist of agreements with certain individuals which cover periods of two to seven years and prohibit the individuals from directly or indirectly competing with the Company and are amortized over the term of the noncompete agreement. All intangible assets except deferred financing costs were fully amortized as of December 31, 2002. Other intangible assets totaling \$125,000 were written off in 2001 against the proceeds of the sale of a subsidiary (see note 2).

Revenue Recognition - Revenue is recognized at the time the service is provided to the customer. For annual contracts, monthly amounts are recognized ratable 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 that the service is performed. Accounts receivable related to estimated revenues were \$451,100 and \$335,790 at

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December 31, 2002 and 2001.

Amounts received from customers in advance of providing the services of the contract are treated as deferred revenue and recognized when the services are provided. Accounts receivable relating the deferred revenue were \$1,158,626 and \$1,123,197 at December 31, 2002 and 2001.

The Company has 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 the Company based on transactions with the ultimate customer. The Company does not recognize revenues related to such transactions as the ultimate customer assumes the risk and rewards of the contract and the amounts billed to the customer are either at cost or with a fixed markup.

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

Common stock options and warrants to purchase 1,290,697, 1,935,527 and 2,103,902 shares of common stock with weighted average exercise prices of \$1.88, \$2.25 and \$2.54 were excluded from the 2002, 2001 and 2000 diluted computation because they are anti-dilutive.

Stock-Based Compensation - The Company utilizes the intrinsic value method of accounting for its stock based employee compensation plans. All options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and accordingly, no compensation cost is reflected in net earnings for the years ended December 31, 2002, 2001, and 2000. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value method of accounting for stock options:

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### HEALTH FITNESS CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
	-----	-----	-----
Net earnings, as reported	\$3,000,671	\$1,806,001	\$ 930,169
Less:			
Compensation expense determined under the fair value method, net of tax	(74,474)	(89,928)	(171,819)
	-----	-----	-----

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Proforma net earnings	2,926,197	1,716,073	758,350
	=====	=====	=====
Earnings per Share:			
Basic-as reported	\$ 0.24	\$ 0.15	\$ 0.08
	=====	=====	=====
Basic-proforma	\$ 0.24	\$ 0.14	\$ 0.06
	=====	=====	=====
Diluted-as reported	\$ 0.24	\$ 0.15	\$ 0.07
	=====	=====	=====
Diluted-proforma	\$ 0.24	\$ 0.14	\$ 0.06
	=====	=====	=====

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

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

	2002	2001
	-----	-----
Dividend yield	None	None
Expected volatility	105.0%	105.0%
Expected life of option	1 to 4 years	1 to 5 years
Risk-free interest rate	5.50%	5.50%
Weighted average fair value of options on grant date	\$0.33	\$0.35

Fair Values of Financial Instruments - Due to their short-term nature, the carrying value of the Company's current financial assets and liabilities approximates their fair values.

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.

Reclassifications - Certain 2001 and 2000 amounts have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on net earnings or stockholders' equity as previously reported.

2. SALE OF ASSETS

On January 1, 2001, the Company sold the stock of a wholly owned subsidiary, David W. Pickering, Inc., a fitness club network provider.

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The Company received \$425,000 and recorded a gain on sale of \$228,613. Operating results for David W. Pickering, Inc. for the year ended December 31, 2000 were as follows:

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### HEALTH FITNESS CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

Revenue	\$ 656,127
Cost of revenue	432,779
	-----
Gross profit	223,348
Operating expenses	178,856
	-----
Operating income	\$ 44,492
	=====

#### 3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	Useful Life	2002
	-----	-----
Leasehold improvements	Term of lease	\$ 37,612
Office equipment	3-7 years	960,262
Software	3 years	156,581
Health care equipment	1-5 years	366,017
		-----
		1,520,472
Less accumulated depreciation and amortization		1,344,266
		-----
		\$ 176,206
		=====

#### 4. FINANCING

Note Payable - On October 31, 2002, the Company entered into a 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 borrowings available on the Merrill Loan are the lesser of \$2,750,000, or 80% of the Company's trade accounts receivable less than 90 days old. The Merrill Loan bears interest at the one-month LIBOR rate plus 2.35% (effective rate of 3.77% at December 31, 2002). Borrowings under the Merrill Loan are collateralized 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. The Company was in compliance with all of its financial covenants at December 31, 2002.

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Prior to October 31, 2002, the Company maintained a working capital facility with Coast Business Credit. Interest on outstanding borrowings was computed at the prime rate plus 3% with a minimum interest rate of 9.0% (effective rate of 9.0% at December 31, 2001). The Company was required to pay minimum monthly interest equal to the effective interest rate times \$2.5 million.

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### HEALTH FITNESS CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

##### 5. COMMITMENTS AND CONTINGENCIES

Leases - The Company leases office space and equipment under operating leases. In addition to base rental payments, these leases require the Company to pay its proportionate share of real estate taxes, special assessments, and maintenance costs. Costs incurred under operating leases are recorded as rent expense and totaled approximately \$136,000, \$148,000 and \$213,000 for the years ended December 31, 2002, 2001 and 2000.

Minimum rent payments due under operating leases are as follows:

Years ending December 31:

2003	\$127,000
2004	120,000
2005	122,000
2006	124,000
2007	103,000
Thereafter	7,000

Benefit Plan - The Company maintains a 401(k) plan whereby employees are eligible to participate in the plan providing they have attained the age of 18 and have completed one month of service. The plan was amended in December 2002 to allow participants to contribute up to 20% of their earnings effective April 1, 2003. Previously, participants were able to contribute up to 15% of their earnings. The Company may make certain matching contributions which were approximately \$132,000, \$122,000 and \$103,000 for the years ended December 31, 2002, 2001 and 2000.

Legal Proceedings - The Company is involved in various claims and lawsuits incident to the operation of its business. The Company believes that the outcome of such claims will not have a material adverse effect on its financial condition, results of operation, or cash flows.

##### 6. EQUITY

Stock Options - The Company maintains a stock option plan for the benefit of certain eligible employees and directors of the Company and its subsidiaries. A total of 577,700 shares of common stock are

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reserved for additional grants of options under the plan at December 31, 2002. Generally, the options outstanding (1) are granted at prices equal to the market value of the stock on the date of grant, (2) vest over various terms and, (3) expire over a period of five or ten years from the date of grant.

A summary of the stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at January 1, 2000	983,905	\$ 2.81
Granted	315,000	0.30
Forfeited	(330,000)	2.46
	-----	-----
Outstanding at December 31, 2000	968,905	2.12

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### HEALTH FITNESS CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

Granted	412,000	0.66
Forfeited	(147,075)	2.83
	-----	-----
Outstanding at December 31, 2001	1,233,830	1.54
Granted	330,700	0.49
Forfeited	(142,230)	2.64
	-----	-----
Outstanding at December 31, 2002	1,422,300	\$ 1.19
	=====	=====

	Number of Shares	Weighted Average Exercise Price
	-----	-----
Options exercisable at December 31:		
2002	852,500	\$ 1.67
2001	799,663	\$ 2.12
2000	553,904	\$ 2.99

The following table summarizes information about stock options at December 31, 2002:



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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 - \$0.44	345,000	3.78	\$ 0.30	170,000	\$
0.47 - 0.69	632,300	5.20	0.55	260,000	
0.95	70,000	8.59	0.95	47,500	
2.25 - 3.00	275,000	3.21	2.80	275,000	
4.00	100,000	.58	4.00	100,000	
	-----			-----	
	1,422,300	4.31	\$ 1.19	852,500	\$
	=====			=====	

Employee Stock Purchase Plan - The Company maintains an Employee Stock Purchase Plan which allows employees to purchase shares of the Company's common stock at 90% of the fair market value. On November 6, 2002 the Company amended the plan to increase the available shares by 300,000. A total of 700,000 shares of common stock are reserved for issuance under this plan, of which 405,238 shares are unissued and remain available for issuance at December 31, 2002. There were 32,411 and 41,672 shares issued under the plan during 2002 and 2000. The Company did not issue shares under the plan in 2001.

Warrants - The Company has outstanding warrants to directors, selling agents, and consultants in consideration for services performed and in connection with the issuance of debt.

During 2000, the Company issued warrants to purchase 150,000 shares of common stock in connection with professional services rendered to the Company during the year. The options were valued at \$39,000 using the Black-Scholes valuation model.

A summary of the stock warrants activity is as follows:

HEALTH FITNESS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	Number of Shares	Exercise Price Per Share
Outstanding at January 1, 2000	1,816,314	\$ 1.00 - 4.00
Granted	198,316	0.30 - 3.00
Forfeited	(397,133)	2.50 - 4.00
	-----	
Outstanding at December 31, 2000	1,617,497	0.30 - 4.00
Forfeited	(250,800)	2.19 - 3.00

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Outstanding at December 31, 2001	1,366,697	0.30 - 4.00
Forfeited	(750,000)	2.25
Outstanding at December 31, 2002	616,697	0.30 - 4.00
Warrants exercisable at December 31:		
2002	616,697	\$ 0.30 - 4.00
2001	1,366,697	0.30 - 4.00
2000	1,617,497	0.30 - 4.00

7. INCOME TAXES

Income tax expense (benefit) consists of the following:

	2002	2001	2000
Current	\$ (2,567)	\$ 71,015	\$ 48,477
Deferred	(2,209,076)	(777,300)	-
	\$ (2,211,643)	\$ (706,285)	\$ 48,447

A reconciliation between taxes computed at the expected federal income tax rate and the effective tax rate for the years ended December 31 is as follows:

	2002	2001	2000
Tax expense computed at statutory rates	\$ 268,300	\$ 322,700	\$ 316,300
State tax benefit, net of federal effect	38,400	46,900	32,000
Nondeductible goodwill amortization	10,200	156,600	159,300
Change in valuation allowance	(2,501,200)	(1,237,300)	(447,500)
Other	(27,343)	4,815	(11,653)
	\$ (2,211,643)	\$ (706,285)	\$ 48,447

At December 31, 2002, the Company had approximately \$7,341,000 of federal operating loss carryforwards. The carryforwards expire through 2019.

The components of deferred tax assets (liabilities) at December 31 consist of the following:

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	2002	2001
	-----	-----
Current:		
Allowance for accounts receivable	\$ 33,400	\$ 48,800
Accrued employee benefits	98,200	88,700
Tax accounting change adjustment	-	-
Self funded insurance	79,900	-
Tax loss carryforwards	520,000	639,800
	-----	-----
Net current asset	731,500	777,300
Noncurrent:		
Depreciation and amortization	(500)	9,800
Tax loss carryforwards	2,225,276	2,461,400
Other	30,100	30,000
	-----	-----
Net non-current asset	2,254,876	2,501,200
	-----	-----
Net deferred tax asset	2,986,376	3,278,500
Less valuation allowance	-	(2,501,200)
	-----	-----
	\$ 2,986,376	\$ 777,300
	=====	=====

8 ACCOUNTING PRONOUNCEMENTS

ADOPTION OF ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002 the Company adopted Statement of Financial Accounting Standards (SFAS) 141, "Business Combinations," and SFAS 142, "Goodwill and Intangible 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 a two step impairment test outlined in SFAS 142. Effective January 1, 2002, the Company discontinued the amortization of goodwill.

The Company completed its transitional goodwill impairment test at June 30, 2002 and determined that no potential impairment exists. The Company elected to complete the annual impairment test of goodwill on December 31 each year and determined that its goodwill relates to one reporting unit for purposes of impairment testing. The Company determined that there was no impairment of goodwill at December 31, 2002.

The pro forma effect of adopting SFAS 142 on net earnings and net earnings per share for the years ended December 31, 2001 and 2000 compared to actual results for the year ended December 31, 2002 is noted as follows:

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HEALTH FITNESS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
	-----	-----	-----
Net earnings as reported	3,001,671	\$ 1,806,001	\$ 930,169
Goodwill amortization	-	400,661	405,818
Adjusted net earnings	\$3,001,671	\$ 2,206,662	\$1,335,987
	=====	=====	=====
Basic net earnings per share:			
Net earnings per share as reported	\$ 0.24	\$ 0.15	\$ 0.08
Goodwill amortization per share	-	0.03	0.03
Adjusted net earnings per share	\$ 0.24	\$ 0.18	\$ 0.11
	=====	=====	=====
Diluted net earnings per share:			
Net earnings per share as reported	\$ 0.24	\$ 0.15	\$ 0.08
Goodwill amortization per share	-	0.03	0.03
Adjusted net earnings per share	\$ 0.24	\$ 0.18	\$ 0.11
	=====	=====	=====

Amortization expense of other intangible assets totaled \$238,015, \$231,560 and \$192,765 for the twelve months ended December 31, 2002, 2001 and 2000. Amortization expense is expected to be \$6,381 for the year ending December 31, 2003.

Effective for the year ended December 31, 2002 the Company adopted SFAS 148, Accounting for Stock-based Compensation-Transition and Disclosure. SFAS 148 amends the disclosure and certain transition provisions of statement 123, Accounting for Stock-Based Compensation. The disclosure requirements of this pronouncement are included in the financial statements for the year ended December 31, 2002.

#### 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." The Company has chosen not to early-adopt SFAS No. 145 and believes the adoption of SFAS No. 145 will not have a material effect on the consolidated financial position or results of operations.

In June 2002, FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The Company believes that the adoption of the SFAS No. 146 will not have a material adverse effect on its consolidated financial position or results of operations.

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HEALTH FITNESS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

### 9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Quarter ended			
	March 31,	June 30,	September 30,	December 31,
2002				
Revenue	\$ 6,687,394	\$ 6,686,808	\$ 6,934,758	\$ 7,556,037
Gross profit	1,474,291	1,453,537	1,420,449	1,578,335
Net earnings	787,321	771,188	777,465	664,697
Net earnings per share				
Basic	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.05
Diluted	0.06	0.06	0.06	0.05
Weighted average common shares outstanding				
Basic	12,265,250	12,265,250	12,289,558	12,297,661
Diluted	12,396,891	12,486,488	12,413,530	12,400,022

	Quarter ended			
	March 31,	June 30,	September 30,	December 31,
2001				
Revenue	\$ 6,426,456	\$ 6,578,716	\$ 6,356,489	\$ 6,548,317
Gross profit	1,366,985	1,487,600	1,519,422	1,430,832
Net earnings	457,458	222,178	182,876	943,489
Net earnings per share				
Basic	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.08
Diluted	0.04	0.02	0.01	0.08
Weighted average common shares outstanding				
Basic	12,165,250	12,165,250	12,264,163	12,265,250
Diluted	12,690,417	12,711,750	12,503,377	12,429,049

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HEALTH FITNESS CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

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Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other accounts Describe	Deductions Describe	Balance at End of Period
Allowance for doubtful accounts and returns:					
Year ended December 31, 2002	\$ 84,700	\$ -	-	\$ (1,200) (a)	\$ 83,500
Year ended December 31, 2001	262,600	(28,000)	-	(149,900) (a)	\$ 84,700
Year ended December 31, 2000	187,900	98,000	-	(23,300) (a)	262,600

(a) Accounts receivable written off as uncollectible

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages and positions of the Company's executive officers are as follows:

Name	Age	Position
Jerry V. Noyce	58	President, Chief Executive Officer and Director
Wesley W. Winnekins	41	Chief Financial Officer and Treasurer
James A. Narum	46	Senior Vice President-Corporate Business Development
Jeanne C. Crawford	45	Vice President-Human Resources and Administration

Jerry V. Noyce has been President and Chief Executive Officer of the Company since November 2000 and a director since January 2001. From October 1973 to March 1997, he was Chief Executive Officer and Executive Vice President of Northwest Racquet, Swim & Health Clubs. From March 1997 to November 1999 Mr. Noyce served as Regional Chief Executive Officer of CSI/Wellbridge Company, the successor to Northwest Racquet, where he was responsible for all operations at the Northwest Clubs and the Flagship Athletic Club.

Wesley W. Winnekins has been Chief Financial Officer and Treasurer of the Company since February 2001. Prior to joining the Company, Mr. Winnekins served as CFO (from January 2000 to February 2001) of University.com, Inc., a privately held provider of on line learning solutions for corporations. From June 1995 to April 1999 he served as CFO and vice president of operations for Reality Interactive, a publicly held developer of CD-ROMs and online training

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for the corporate market. From June 1993 to May 1995 he served as controller and director of operations for The Marsh, a Minneapolis-based health club, and was controller of the Greenwood Athletic Club in Denver from October 1987 to January 1989.

James A. Narum has been the Company's Senior Vice President-Corporate Business Development since December 2001, and served as Corporate Vice President of Operations-Corporate Health and Fitness Division from November 2000 to December 2001. From 1995 until November 2000, Mr. Narum was responsible for national operations in the Company's Corporate Health and Fitness Division. From 1983 to 1995, Mr. Narum was responsible for regional operations, sales, consulting, and client account management for Fitness Systems Inc., a provider of fitness center management services the Company acquired in 1995.

Jeanne C. Crawford has been the Company's Vice President of Human Resources since July 1998 and Secretary of the Company since February 2001. From July 1996 through July 1998, Ms. Crawford served as a Human Resource consultant to the Company. From October 1991 through September 1993, Ms. Crawford served as Vice President of Human Resources for RehabClinics, Inc. a publicly held outpatient rehabilitation company. From May 1989 through October 1991, Ms. Crawford served as Director of Human Resources for Greater Atlantic Health Service, an HMO and physicians medical group. From 1979 through 1989, Ms. Crawford served in various human resources management positions in both the retail and publishing industries.

The information required by Item 10 relating to directors and compliance with Section 16 of the Exchange Act is incorporated herein by reference to the sections entitled "Election of Directors" and

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"Section 16(a) Beneficial Ownership Reporting Compliance" which appear in the Company's definitive proxy statement for its 2003 Annual Meeting.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the section entitled "Executive Compensation" which appears in the Company's definitive proxy statement for its 2003 Annual Meeting.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated herein by reference to the section entitled "Principal Shareholders and Management Shareholdings" which appears in the Company's definitive proxy statement for its 2003 Annual Meeting.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated herein by reference to the section entitled "Certain Transactions" which appears in the Company's definitive proxy statement for its 2003 Annual Meeting.

### ITEM 14. 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

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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.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report.

(1) Financial Statements. The following financial statements are included in Part II, Item 8 of this Annual Report on Form 10-K:

Report of Grant Thornton LLP on Consolidated Financial Statements and Financial Statement Schedule as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002

Consolidated Balance Sheets as of December 31, 2002 and 2001

Consolidated Statements of Earnings for each of the three years in the period ended December 31, 2002

Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2002

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2002

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules. The following consolidated financial statement schedule is included in Item 8:

Schedule II-Valuation and Qualifying Accounts

All other financial statement schedules have been omitted, because they are not applicable, are not required, or the information is included in the Financial Statements or Notes thereto

(3) Exhibits. See "Exhibit Index to Form 10-K" immediately following the signature page of this Form 10-K

(b) Reports on Form 8-K



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

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 4, 2003

HEALTH FITNESS CORPORATION

By /s/ Jerry Noyce.

Jerry Noyce
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears above or below constitutes and appoints Jerry Noyce and Wesley Winnekins, or either of them, his true and lawful attorneys-in-fact, and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Table with 3 columns: Signature, Title, Date. Rows include Jerry Noyce (Chief Executive Officer and Director), Wesley Winnekins (Chief Financial Officer), and James A. Bernards.

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----- James A. Bernard /s/ K. James Ehlen, MD -----	Director	April
K. James Ehlen, MD /s/ John C. Penn -----	Director	April
John C. Penn /s/ Mark W. Sheffert -----	Director	April
Mark W. Sheffert /s/ Linda Hall Whitman -----	Director	April
Linda Hall Whitman /s/ Rodney A. Young -----	Director	April
Rodney A. Young	Director	April

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SARBANES-OXLEY SECTION 302 CERTIFICATION

I, Jerry V. Noyce, certify that:

1. I have reviewed this annual report on Form 10-K of Health Fitness Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date

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within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual 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 annual 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: April 4, 2003

By                   /s/ Jerry V. Noyce  
-----  
Jerry V. Noyce  
Chief Executive Officer

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### SARBANES-OXLEY SECTION 302 CERTIFICATION

I, Wesley W. Winnekins, certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

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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 annual 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 annual report (the "Evaluation Date"); and
- c) presented in this annual 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 annual 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: April 4, 2003

By \_\_\_\_\_ /s/ Wesley W. Winnekins

-----  
Wesley W. Winnekins  
Chief Financial Officer

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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 June 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	Standard Office Lease Agreement (Net) dated as of June 13, 1996 covering a portion of the Company's headquarters - incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1996
10.2	Amendment dated March 1, 2001 to Standard Office Lease Agreement (Net) dated as of June 13, 1996 covering a portion of the Company's headquarters-incorporated by reference to the Company's Form 10K for the year ended December 31, 2000.
10.3	Second Amendment, dated June 12, 2002, to Standard Office Lease Agreement dated as of June 13, 1996- incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 2002.
*10.4	Company's 1995 Stock Option Plan - incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1995
*10.5	Amendment to Company's 1995 Stock Option Plan - incorporated by reference to Part II, Item 4 of the Company's Form 10-QSB for the quarter ended June 30, 1997
*10.6	Employment agreement dated November 30, 2000 between Company and Jerry V. Noyce-incorporated by reference to the Company's Form 10K for the year ended December 31, 2000.
*10.7	Employment agreement dated April 21, 1995 between the Company and James A. Narum, as amended October 19, 1999, November 2, 2000 and March 25, 2003.
*10.8	Employment agreement dated February 9, 2001 between Company and Wesley W. Winnekins-incorporated by reference to the Company's Form 10K for the year ended December 31, 2000.
*10.9	Employment agreement dated March 1, 2003 between Company and Jeanne Crawford
10.10	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
10.11	WCMA Loan and Security Agreement dated October 31, 2002 between the Company and Merrill Lynch Business Financial

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Services, Inc. incorporated by reference to the Company's Form 10Q for the quarter ended September 30, 2002

- 11.0 Statement re: Computation of Earnings per Share
- 21.1 Subsidiaries
- 23.1 Consent of Grant Thornton LLP

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Exhibit No. -----	Description -----
24.1	Power of Attorney (included on Signature Page)
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

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\* Indicates management contract or compensatory plan or arrangement

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