UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

Commission File Number: 0-25064

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

MINNESOTA	41-1580506
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3600 AMERICAN BLVD W., 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 [X] 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 [X]

As of June 30, 2003, 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 $5,070,000.

As of March 26, 2004, 12,438,245 shares of the registrant's common stock, $.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF THE PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 19, 2004 ARE INCORPORATED BY REFERENCE INTO PART III OF THIS REPORT.

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 American Blvd W., Suite 560, Bloomington, Minnesota 55431, and its telephone number is (952) 831-6830. The Company maintains an internet website at www.hfit.com. On its website, the Company makes available free of charge its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports.

On December 8, 2003, the Company completed its purchase of the business assets of the Health & Fitness Services Division of Johnson & Johnson Health Care Systems Inc. for approximately $4,800,000 pursuant to an Asset Purchase Agreement dated August 25, 2003. The Company financed the acquisition primarily with private equity financing from Bayview Capital Partners LP, supplemented by a bank term loan from Wells Fargo Bank, N.A. The purchase price is subject to certain post-closing adjustments.

The assets acquired by the Company consist primarily of client contracts, proprietary wellness, lifestyle and health promotion programs and other health and wellness services. As part of the transaction, the Company entered into a multi-year management contract with another subsidiary of Johnson & Johnson to manage more than 50 Johnson & Johnson affiliate sites, making the Johnson & Johnson family of companies the Company's largest client.

The Health & Fitness Services Division of Johnson & Johnson Health Care Systems Inc. has been serving clients since 1986, providing corporate fitness and wellness services and programs to companies across the United States and Canada. Services include: health and fitness center management, consulting, occupational health services, health risk assessment programs, wellness, fitness, injury prevention and treatment programs and data analysis services. The Company intends to continue the same services and programs.

Effective 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.

FITNESS AND WELLNESS CENTER MANAGEMENT SERVICES

Since the Company's inception in 1975, the Company has established itself as the leading provider of results-oriented fitness and wellness center management and consulting services. The Company currently has contracts to manage a total of 393 sites across the United States and Canada, including 223 corporate fitness centers, 47 corporate wellness programs, 12 corporate occupational health programs, 15 hospital, commercial and university based fitness centers and wellness programs, and 96 corporate sites that do not have full-time staff.

Major corporations, hospitals and universities 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 illness. 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 through telemarketing, direct sales and direct mail initiatives.

CONSULTING SERVICES

The Company provides a full range of analytic, development, management and marketing consulting services. These services include the following:

- STRATEGIC ASSESSMENT. Provides companies with a comprehensive analysis of the effectiveness of current employee health, wellness, fitness, injury prevention and treatment programs, with recommendations for areas of improvement that can translate into an improved return on investment. This service also creates a road map for companies that are considering investing in an employee health and wellness initiative.

- BUSINESS ANALYSIS. Organizations that are considering the development of a new health and fitness center, or are concerned with the performance of existing facilities, employ the Company to perform a comprehensive analysis of market potential for their program. Services can include demographic analysis, market analysis, and multiple-year financial business plan development.

- FACILITIES PLANNING. Organizations that are planning new fitness centers employ the Company to help develop plans for these facilities. Such plans may include space planning, interior design, floor plan design, selection and sourcing of fitness equipment and fitness program design.

- EMPLOYEE PRODUCTIVITY SERVICES. The Company provides a full range of occupational health consulting services, including injury prevention program design and development, work screening services, work hardening programs, injury treatment programs and return to work programs.

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 customers and individual employees. These programs and services, which are generally delivered through the Company's managed sites, include the following:

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.

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.

INTEGRATED HEALTH MANAGEMENT SERVICES

The high cost of employee health care has become a key concern for U.S. corporations. It is expected that annual health care costs will continue to increase at double digit rates for the next several years. This trend is being fueled by a number of factors, including an aging workforce, unhealthy populations entering the workforce and obesity-related medical conditions due to poor nutrition and inactivity.

Companies that understand and address the health needs of employees, their dependents and retirees are better able to proactively manage and control the rate of increase in health care costs. The implementation of specific strategies to help "at-risk" individuals is now considered a top priority by companies looking to reduce health care costs.

The Company, through its network of fitness and wellness centers, and its health assessment, fitness, wellness, and injury prevention and treatment programs, is well-positioned to provide an integrated health management solution that will address the health and wellness needs of a company's entire workforce, from low risk individuals to employees managing a chronic disease.

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 almost 30 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, 2003, the Company had 740 full-time and 2,225 part-time employees. The Company's employees are primarily engaged in the staffing of fitness, wellness and occupational health centers and programs. The Company currently does not have a collective bargaining relationship. However, employees working at certain of the Company's automotive sites have voted to accept unionization. At this time, the company has not begun the process to establish a collective bargaining relationship. 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.

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 office. 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 in Bloomington, Minnesota, 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 ("HealthSouth") 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.

In June 2003, while awaiting the final outcome of an appeal made by HealthSouth, the Company paid HealthSouth approximately $25,000 in settlement of all of HealthSouth's remaining claims.

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, 2003.

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 2003:	Low	High
Fourth quarter	$1.01	$1.33
Third quarter	0.51	1.01
Second quarter	0.39	0.55
First quarter	0.38	0.50

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

At March 24, 2004, the published high and low sale prices for the Company's common stock were $1.89 and $1.70 per share respectively. On March 24, 2004, there were issued and outstanding 12,438,245 shares of common stock of the Company held by 378 registered 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 2002 and 2003, 32,411 and 53,423 common shares respectively, were issued to Company employees in connection with their purchase of stock through the Company's Employee Stock Purchase Plan. The Company did not issue shares under the plan during 2001.

ITEM 6. SELECTED FINANCIAL DATA

The data given below as of and for each of the five years in the period ended December 31, 2003, 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,			
	2003	2002	2001	
STATEMENT OF OPERATIONS DATA:				
REVENUE	31,479,000	$27,865,000	$25,910,000	$2
INCOME (LOSS) FROM CONTINUING OPERATIONS	(27,000)	3,001,000	1,806,000	
INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS:				
Basic	0.00	0.24	0.15	
Diluted	0.00	0.24	0.15	
BALANCE SHEET DATA (AT DECEMBER 31):				
TOTAL ASSETS	19,808,000	12,956,000	10,199,000	1
LONG-TERM DEBT	4,350,000	--	--	
SHAREHOLDERS' EQUITY	9,732,000	9,079,000	6,063,000	

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.

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 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 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. The revenues relating to theses services are estimated in the month that the service is performed. Amounts received from customers in advance of providing services 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.

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, 2003, 2002, and 2001.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2003 AND 2002

REVENUE. Revenue increased $3,614,000 or 13.0% to $31,479,000 for 2003, from $27,865,000 for 2002. Of this increase, $1,220,000 is attributed to the acquisition of the Health & Fitness Services Division of Johnson & Johnson Health Care Systems Inc. The remaining increase of $2,394,000 is attributed to the addition of new contracts in our current lines of business and the expansion of services under existing contracts.

GROSS PROFIT. Gross profit increased $608,000 or 10.3% to $6,535,000 for 2003, from $5,927,000 for 2002. Of this increase, $379,000 is attributed to the acquisition of the Health & Fitness Services Division of Johnson & Johnson Health Care Systems Inc. The remaining increase of $229,000 is attributed to the addition of new contracts in our current lines of business and the expansion of services under existing contracts. As a percent of revenue, gross profit decreased to 20.8% for 2003 from 21.3% for 2002. This decrease is primarily due to start-up expenses for two corporate fitness centers the Company began

managing during 2003 on an at-risk basis. The Company believes that gross margins at these centers will improve over time as new memberships are sold.

OPERATING EXPENSES AND OPERATING INCOME. Operating expenses increased $550,000 or 11.9% to $5,167,000 for 2003, from $4,617,000 for 2002. This increase is due to a $379,000 increase in salary expense, which is primarily attributed to additional staff related to the Company's acquisition of the Health & Fitness Services Division of Johnson & Johnson Health Care Systems Inc., and higher employee benefits costs. The $171,000 increase in selling, general, and administrative expenses is primarily due to the Company's acquisition, including approximately $74,000 of acquisition-related depreciation and amortization and $60,000 of professional fees that could not be capitalized.

As a result of the previously discussed changes in gross profit and operating expenses, operating income increased $59,000 or 4.5%, to $1,368,000 for 2003, from $1,309,000 for 2002.

OTHER INCOME AND EXPENSE. Interest expense decreased $317,000 to $204,000 for 2003, from $521,000 for 2002. This decrease is primarily due to lower debt levels and interest rates during 2003 compared to 2002.

INCOME TAXES. Current income tax expense increased $82,000 to an expense of $79,000 for 2003, from a benefit of $3,000 for 2002. This increase is due to the utilization of net operating losses for various states in 2002, which were not available to the Company in 2003.

The Company's deferred income tax expense increased $2,659,000 to $450,000 for 2003, from a benefit of $2,209,000 for 2002. This increase is attributable to the Company recognizing its remaining deferred tax asset valuation allowance by December 31, 2002.

The changes in income tax expense between 2003 and 2002 had no effect on the Company's cash position for 2003.

NET EARNINGS. As a result of the above, net earnings for 2003 decreased $2,368,000 to $633,000, compared to net earnings of $3,001,000 for 2002.

DIVIDENDS TO PREFERRED SHAREHOLDERS. To finance the Company's acquisition of the Health & Fitness Services Division of Johnson & Johnson Health Care Systems Inc., the Company sold $1,000,000 in Series A Convertible Preferred Stock (the "Preferred Stock") to Bayview Capital Partners LP ("Bayview"). The Preferred Stock was issued to Bayview at a price of $1.00 per share, resulting in the issuance of 1,000,000 shares. The Preferred Stock has a stated dividend rate of 6% per year, computed on a simple interest basis, paid in kind in the form of additional shares of Preferred Stock using a price of $1.00 per share ("PIK Dividends"). As of December 31, 2003, the Company accrued dividends of $3,834.

At the option of the holder, the Preferred Stock, including any PIK Dividends, may be converted, at any time and from time to time, into common stock of the

Company at a price of $0.50 per share. When Bayview made its commitment to invest in the Company on August 25, 2003, the fair value of the Company's common stock to be received upon conversion of the Preferred Stock was greater than the conversion price of the preferred stock, which resulted in a beneficial conversion feature. Accordingly, the Company calculated a $656,096 beneficial conversion feature which has been recorded as a deemed dividend in the consolidated statement of operations for the year ended December 31, 2003.

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 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 $575,000 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 in 2001 of $229,000 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital increased $1,005,000 to $2,255,000 for 2003, from $1,250,000 for 2002. This increase is largely due to the increase in accounts receivable.

On August 22, 2003, the Company entered into a $7,500,000 Credit Agreement with Wells Fargo Bank, N.A. ("Wells Fargo") to provide the Company with acquisition financing and general working capital (the "Wells Loan"). The initial draw on the Wells Loan was in the amount of $1,255,204, which was used to refinance the revolving line of credit the Company previously maintained with Merrill Lynch Business Financial Services, Inc. ("Merrill Lynch"). The Company repaid all amounts owed, and canceled the line of credit with Merrill Lynch, which accrued interest at the one-month LIBOR rate plus 2.35% (effective rate of 3.77% at December 31, 2002). On August 25, 2003, the Company made a draw of $2,250,000 on the Wells Loan, the proceeds of which the Company placed into escrow to fund a portion of the acquisition of the Health & Fitness Services Division of Johnson & Johnson Health Care Systems Inc.

Future working capital advances from the Wells Loan will be based upon a percentage of the Company's eligible accounts receivable, less any amounts previously drawn. At the option of the Company, the Wells Loan bears interest at prime or the one-month LIBOR plus a margin of 2.25% to 2.75% based upon the Company's Senior Leverage Ratio. The availability of the Wells Loan will decrease $250,000 on the last day of each calendar quarter, beginning September 30, 2003, and will expire on June 30, 2007. Borrowings under the Wells Loan are collateralized by substantially all of the Company's assets. The Company is required to comply with certain monthly financial covenants, including a senior cash flow leverage ratio, senior leverage ratio and current ratio. At December 31, 2003, the Company had $2,775,000 outstanding under the Wells Loan, and was in compliance with all of its financial covenants.

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

On December 8, 2003, (the "Acquisition Effective Date"), the $3,000,000 Bridge Note issued to Bayview was converted into a $2,000,000 term note (the "Term Note"), $1,000,000 in Series A Convertible Preferred Stock (the "Preferred Stock") and a warrant to purchase common stock of the Company (the "Warrant") per the terms set forth in the August 25, 2003 Securities Purchase Agreement. The Term Note will bear interest at 12% per year, payable monthly, and will mature on the fifth anniversary of the Acquisition Effective Date. The Term Note may be prepaid, in whole or in part, at any time, provided that the prepayment is accompanied by a premium ranging from 5% in year 1 to 1% in year 5. The Bayview Investment is secured by a subordinated security interest in substantially all of the Company's assets. The Company is required to comply with certain monthly financial covenants, including a senior cash flow leverage ratio, senior leverage ratio and current ratio. At December 31, 2003, the Company was in compliance with all of its financial covenants.

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

The following table represents the Company's contractual obligations at December 31, 2003:

		Payments Due By Period		
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years
Long-term obligations	$4,775,000	$ --	$ --	$4,775,000
Operating leases	916,000	251,000	472,000	193,000

As of December 31, 2003, 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 Wells Loan. The Company does not believe that inflation has had a significant impact on its results of its operations.

OUTLOOK AND TRENDS

The high cost of employee health care has become a key concern for U.S. corporations. It is expected that annual health care costs will continue to increase at double digit rates for the next several years. This trend is being fueled by a number of factors, including an aging workforce, unhealthy populations entering the workforce and obesity-related medical conditions due to poor nutrition and inactivity.

Companies that understand and address the health needs of employees, their dependents and retirees are better able to proactively manage and control the rate of increase in health care costs. The implementation of specific strategies to help "at-risk" individuals is now considered a top priority by companies looking to reduce health care costs.

The U.S. economy has been experiencing recessionary pressures, which has negatively affected the corporate landscape. This economic downturn has resulted in a more competitive environment with respect to the prices the Company charges for its services. Although the Company believes that price competition will not materially affect results of operations, the Company believes that price competition will continue for the foreseeable future.

An emerging trend within corporate fitness center 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 the fitness center. 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 twenty-four 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.

Lastly, the Company intends to continue expanding its revenue opportunities by offering additional wellness services and programs to its existing client base, including 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, 2003, the Company had outstanding stock options and stock purchase warrants to purchase an aggregate of 3,171,220 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 shares of the 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.

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.

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, health risk assessment and health coaching services, in addition to the group health plan the Company sponsors for its employees, are subject to HIPAA's requirements. The Company expects to be in compliance with HIPPA requirements within the timeline specified for the Company's affected business areas. The Company's corporate, hospital, community and university-based fitness center management lines of business are not subject to the requirements of HIPAA.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued Financial Interpretations No. 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and addresses consolidation by business enterprises of variable interest entities. FIN 46 applies immediately to variable interest entities created or obtained after January 31, 2003 and applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. This interpretation is not anticipated to have an impact on the Company's consolidated financial position or results of operations.

In April 2003, the FASB issued Statement 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. Statement 149 clarifies implementation issues and amends Statement 133, to include the conclusions reached by the FASB on certain FASB Staff Implementation Issues that, while inconsistent with Statement 133's conclusions, were considered by the Board to be preferable, amends discussion of financial guarantee contracts and the application of the shortcut method to an interest-rate swap agreement that includes an embedded option, and amends other pronouncements. Statement 149 is effective to contracts entered into or modified, and hedging arrangements designated after June 30, 2003, with various exceptions as outlined in the statement. Adoption of Statement 149 is not anticipated to have an impact on the Company's consolidated financial position or results of operations.

In May 2003, the FASB issued Statement 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. Statement 150

changes the classification in the statement of financial position of certain common financial instruments from either equity or mezzanine presentation to liabilities and requires an issuer of those financial statements to recognize changes in fair value or redemption amount, as applicable, in earnings. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of Statement 150 is not anticipated to have an impact on the Company's financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Balance Sheets of the Company as of December 31, 2003 and 2002, and the related Consolidated Statements of Operations, Stockholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 2003, and the notes thereto have been audited by Grant Thornton LLP, independent certified public accountants.

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

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, 2003 and 2002 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. 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 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, 2003 and 2002 and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2003, 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, 2003. 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 25, 2004

HEALTH FITNESS CORPORATION

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

	2003
ASSETS	
CURRENT ASSETS	
Cash	$ 281,294
Trade and other accounts receivable, less allowances of $131,000 and $88,900 at December 31, 2003 and 2002	5,218,224
Prepaid expenses and other	187,347
Deferred tax assets	850,300
Total current assets	6,537,165
PROPERTY AND EQUIPMENT, net	177,217
OTHER ASSETS	
Goodwill	8,725,574
Customer contracts, less accumulated amortization of $67,400 at December 31, 2003	1,662,639
Trademark, less accumulated amortization of $5,800 at December 31, 2003	344,166
Other intangible assets, less accumulated amortization of $4,200 and $1,300 at December 31, 2003 and 2002	138,582
Cash held in escrow	471,999
Deferred tax assets	1,686,301
Other	64,458
	$19,808,101
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Note payable	$ -
Trade accounts payable	569,730
Accrued salaries, wages, and payroll taxes	1,607,157
Other accrued liabilities	450,255
Accrued self funded insurance	228,084
Deferred revenue	1,427,057
Total current liabilities	4,282,283
LONG-TERM OBLIGATIONS	4,350,012
COMMITMENTS AND CONTINGENCIES	-
PREFERRED STOCK, $0.01 par value; 5,000,000 shares authorized, 1,003,833 issued and outstanding	1,443,833
STOCKHOLDERS' EQUITY	
Common stock, $0.01 par value; 25,000,000 shares authorized;	

12,357,334 and 12,297,661 shares issued and outstanding at December 31, 2003 and 2002	123,573
Additional paid-in capital	17,671,536
Accumulated comprehensive income from foreign currency translation	5,707
Accumulated deficit	(8,068,843)
	9,731,973
	$19,808,101

See notes to consolidated financial statements.

HEALTH FITNESS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	20
REVENUE	$ 31,478,822	$ 27,864,997	$ 25,9
COSTS OF REVENUE	24,943,625	21,938,385	20,1
GROSS PROFIT	6,535,197	5,926,612	5,8
OPERATING EXPENSES			
Salaries	3,244,639	2,866,200	2,1
Selling, general, and administrative	1,922,511	1,751,228	2,3
Total operating expenses	5,167,150	4,617,428	4,4
OPERATING INCOME	1,368,047	1,309,184	1,3
OTHER INCOME (EXPENSE)			
Interest expense	(204,430)	(521,106)	(4
Gain on sale of subsidiary	-	-	2
Other, net	(2,405)	950	(
EARNINGS BEFORE INCOME TAXES	1,161,212	789,028	1,0
INCOME TAX EXPENSE (BENEFIT)	528,536	(2,211,643)	(7
NET EARNINGS	632,676	3,000,671	1,8
Deemed dividend to preferred shareholders	656,096	-	
Dividend to preferred shareholders	3,834	-	
NET EARNINGS (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$ (27,254)	$ 3,000,671	$ 1,8
NET EARNINGS PER COMMON SHARE:			
Basic	$ -	$ 0.24	$

Diluted	-	0.24	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	12,332,363	12,284,364	12,2
Diluted	12,332,363	12,428,440	12,4

See notes to consolidated financial statements.

HEALTH FITNESS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	Common Stock		Additional Paid-in Capital	Accumulated Comprehensive Income	Accumulat Deficit
	Shares	Amount			
BALANCE AT JANUARY 1, 2001	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,
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,
Issuance of common stock through stock purchase plan	53,423	533	23,506	-	
Issuance of common stock for options	6,250	63	2,375	-	
Issuance of warrants	-	-	648,288	-	
Deemed dividend to preferred shareholders	-	-	-	-	(656,
Dividend to preferred shareholders	-	-	-	-	(3,
Net earnings	-	-	-	-	632,
Foreign currency transalation	-	-	-	5,707	
BALANCE AT DECEMBER 31, 2003	12,357,334	$123,573	$17,671,536	$5,707	$ (8,068,

See notes to consolidated financial statements.

HEALTH FITNESS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net earnings	$ 632,676
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	152,538
Amortization of financing costs	10,572
Amortization of discount on long-term obligation	7,203
Interest on escrow account	(7,388)
Deferred taxes	449,775
(Gain) loss on disposal of assets	5,796
Gain on sale of subsidiary	-
Change in assets and liabilities, net of assets acquired:	
Trade and other accounts receivable	(1,181,336)
Prepaid expenses and other	119,387
Other assets	18,350
Trade accounts payable	203,897
Accrued liabilities and other	529,616
Deferred revenue	19,620
Discontinued operations	-
Net cash provided by operating activities	960,706
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(89,761)
Net proceeds from sale of subsidiary	-
Net cash payment made for acquisition	(5,570,813)
Payment of non-compete agreement	-
Net cash provided by (used in) investing activities	(5,660,574)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings under note payable	5,178,174
Repayments of note payable	(4,957,763)
Proceeds from issuance of bridge note financing	3,000,000
Payment to cash escrow account	(3,000,000)
Proceeds from cash escrow account	4,785,389
Repayments of long term obligations	-
Payment of financing costs	(142,773)
Proceeds from the issuance of common stock	24,039
Proceeds from the exercise of stock options	2,438
Net cash provided by (used in) financing activities	4,889,504
NET INCREASE (DECREASE) IN CASH	189,636
CASH AT BEGINNING OF YEAR	91,658
CASH AT END OF YEAR	$ 281,294

SUPPLEMENTAL CASH FLOW DISCLOSURES

Supplemental cash flow information:	
Cash paid for interest	$ 191,073
Cash paid for taxes	91,858
Noncash investing and financing activities affecting cash flows:	
Proceeds from the Wells Loan placed in escrow	2,250,000
Conversion of bridge note to term note, preferred stock and warrants	(3,000,000)
Deemed dividend to preferred shareholders	(656,096)
Dividend to preferred shareholders	(3,834)

See notes to consolidated financial statements.

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HEALTH FITNESS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

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

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

Property and Equipment - Property and equipment 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 Statement of Financial Standards, ("SFAS") No. 142 "Goodwill and Intangible Assets", and discontinued the amortization of goodwill (see note 8).

The carrying value of goodwill 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, 2003, 2002 AND 2001

Intangible Assets - The Company's intangible assets include customer contracts, trademark, and deferred financing costs and are amortized on a straight-line basis. Customer contracts represent the fair value assigned to acquired management contracts and will be amortized over the remaining life of the contracts, approximately 25-35 months. Trademark represents the value assigned to an acquired trademark and is amortized over a period of five years. Deferred financing costs are amortized over the term of the related credit agreement. Amortization expense for intangible assets totaled $83,800, $238,000, and $157,500 for the twelve months ended December 31, 2003, 2002, and 2001.

Expected future amortization of intangible assets is as follows:

Years ending December 31	
2004	$907,600
2005	850,000
2006	203,200
2007	98,300
2008	85,600

Cash Held In Escrow - Cash held in escrow represents the funds remaining after payment of the purchase price for the Company's acquisition. Such funds will remain in escrow until all parties subject to the escrow agreement agree that all conditions related to the acquisition have been satisfied. At that time, any funds remaining in escrow will be used to pay down the Company's long-term obligations.

Revenue Recognition - Revenue is recognized at the time the service is provided to the customer. For annual contracts, monthly amounts are recognized ratably over the term of the contract. Certain services provided to the customer may vary on a periodic basis and are invoiced to the customer in arrears. The revenues relating to theses services are estimated in the month that the service is performed. Accounts receivable related to estimated revenues were $610,139 and $451,100 at December 31, 2003 and 2002.

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 to deferred revenue were $1,381,002 and $1,158,626 at December 31, 2003 and 2002.

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.

Comprehensive Income - The Company follows the provisions of SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income and its components. Comprehensive income is net earnings plus certain other items that are recorded directly to stockholders' equity. For the Company, comprehensive income represents net earnings adjusted for foreign currency translation adjustments. Comprehensive income is disclosed in the consolidated statement of stockholders' equity.

Net Earnings Per Common Share - Basic net earnings per common share is computed by dividing net earnings by the number of weighted average common shares outstanding. Diluted net earnings per common share is computed by dividing net earnings plus dividends to preferred shareholders 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 491,000, 1,290,697 and 1,935,527 shares of common stock with weighted average exercise prices of $1.92, $1.88 and $2.25 were excluded from the 2003, 2002 and 2001 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, 2003, 2002, and 2001. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-based Compensation", to its stock-based compensation plans.

	2003	2002	2
Net earnings (loss) applicable to common shareholders, basic and diluted	$ (27,254)	$ 3,000,671	$ 1,
Less: Compensation expense determined under the fair value method, net of tax	(76,040)	(74,474)	
Proforma net earnings, basic	$ (103,294)	$ 2,926,197	$ 1,
Proforma net earnings, diluted	$ (103,294)	$ 2,926,197	$ 1,
Earnings per Share:			
Basic-as reported	$ 0.00	$ 0.24	$
Basic-proforma	$ (0.01)	$ 0.24	$
Diluted-as reported	$ 0.00	$ 0.24	$
Diluted-proforma	$ (0.01)	$ 0.24	$

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:

	2003	2002	2001
Dividend yield	None	None	None
Expected volatility	88.4%-105.0%	105.0%	105.0%
Expected life of option	1 to 4 years	1 to 4 years	1 to 5 years
Risk-free interest rate	2.90%-3.27%	5.50%	5.50%
Weighted average fair value of options on grant date	$0.48	$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. 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.

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.

Reclassifications - Certain 2002 and 2001 amounts have been reclassified to conform to the 2003 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. The Company received $425,000 and recorded a gain on sale of $228,613.

3. PURCHASE OF ASSETS

On December 8, 2003 (the "Effective Date"), the Company purchased the business assets of the Health & Fitness Services Business of Johnson & Johnson Health Care Systems Inc. (JJHCS) for $4,785,389. Assets acquired by the Company consist primarily of client contracts, proprietary wellness, lifestyle and health promotion programs, software, and other health and wellness services. As part of the transaction, the Company entered into a multi-year management contract with another subsidiary of Johnson & Johnson whereby the Company will manage more than 50 Johnson & Johnson affiliate fitness center sites. The Company also entered into a one-year agreement to use 660 square feet of office space of JJHCS for a fee of $1,500 per month.

The acquisition has been accounted for using the purchase method of accounting. The fair market value of the assets acquired resulted in the following purchase price allocation:

Cash price paid for assets	$4,785,389
Acquisition costs incurred	785,424
Total purchase price	$5,570,813

HEALTH FITNESS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

Purchase Price Allocation	
Inventory	$ 40,000
Property and equipment	
	34,000
Customer contracts	1,730,000
Trademark	350,000
Excess of cost over assets acquired	3,416,813
	$5,570,813

Up to $205,000 of additional purchase price may be paid to JJHCS as a result of additional contract assignments.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	Useful Life	2003	2002
Leasehold improvements	Term of lease	$ 4,127	$ 37,6
Office equipment	3-7 years	1,034,365	960,2
Software	3 years	159,772	156,5
Health care equipment	1-5 years	383,906	366,0
		1,582,170	1,520,4
Less accumulated depreciation and amortization		1,404,953	1,344,2
		$ 177,217	$ 176,2

5. FINANCING

On August 22, 2003, the Company entered into a $7,500,000 Credit Agreement with Wells Fargo Bank, N.A. to provide the Company with acquisition financing and general working capital (the "Wells Loan"). The initial draw on the Wells Loan was in the amount of $1,255,204, which was used to refinance the revolving line of credit ("Merill Lynch Loan") the Company previously maintained with Merrill Lynch Business Financial Services, Inc. ("Merrill Lynch"). The Company repaid all amounts owed, and canceled the line of credit with Merrill Lynch, which accrued interest at the one-month LIBOR rate plus 2.35% (effective rate of 3.77% at December 31, 2002). On August 25, 2003, the Company made a draw of $2,250,000 on the Wells Loan, the proceeds of which the Company placed into escrow to fund a portion of the JJHCS asset purchase on the Effective Date.

Future working capital advances from the Wells Loan will be based upon a percentage of the Company's eligible accounts receivable, less any amounts previously drawn. At the option of the Company, the Wells Loan bears interest at prime or the one-month LIBOR plus a margin of 2.25% to 2.75% based upon the Company's Senior Leverage Ratio. The availability of the Wells Loan will decrease $250,000 on the last day of each calendar quarter, beginning September 30, 2003, and will expire on June 30, 2007. Borrowings under the Wells Loan are collateralized by substantially all of the Company's assets. The Company is required to comply with certain monthly financial covenants, including a senior

cash flow leverage ratio, senior leverage ratio and current ratio. At December 31, 2003, the Company had $2,775,000 outstanding under the Wells Loan, and was in compliance with all of its financial covenants.

On August 25, 2003, the Company entered into a $3,000,000 Securities Purchase Agreement with Bayview Capital Partners LP ("Bayview") to provide the Company with acquisition financing and general working capital (the "Bayview Investment"). The Bayview Investment was initially structured as a bridge note (the "Bridge Note"), the proceeds of which the Company placed into escrow to fund a portion of the JJHCS asset purchase on the Effective Date.

On the Effective Date, the $3,000,000 Bridge Note issued to Bayview was converted into a $2,000,000 term note (the "Term Note"), $1,000,000 in Series A Convertible Preferred Stock (the "Preferred Stock") and a warrant to purchase common stock of the Company (the "Warrant") per the terms set forth in the August 25, 2003 Securities Purchase Agreement. The Term Note will bear interest at 12% per year, payable monthly, and will mature on the fifth anniversary of the Effective Date. The Term Note may be prepaid, in whole or in part, at any time, provided that the prepayment is accompanied by a premium ranging from 5% in year 1 to 1% in year 5. The Bayview Investment is secured by a subordinated security interest in substantially all of the Company's assets. The Company is required to comply with certain monthly financial covenants, including a senior cash flow leverage ratio, senior leverage ratio and current ratio. At December 31, 2003, the Company was in compliance with all of its financial covenants.

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

The Warrant issued to Bayview on the Effective Date represents the right to purchase 1,210,320 shares of common stock, which represents 8% of the Company's common stock outstanding on a fully diluted basis at the Effective Date, excluding the common stock issuable to Bayview upon conversion of the Preferred Stock. The Warrant will be exercisable at any time for a period of ten years at an exercise price equal to $0.50 per share, and the shares obtainable upon exercise of the Warrant may be put to the Company at fair market value (net of the exercise price) upon a change of control or default.

The investment proceeds received from Bayview were allocated based upon the relative fair value of each instrument, which resulted in the following allocation:

Value assigned to Preferred Stock	$ 783,904
Value assigned to Warrants	648,288
Value assigned to Term Note	1,567,808

The $432,192 difference between the $2,000,000 face value of the Term Note and its assigned relative fair value will be amortized as interest expense over the 5-year term of the Term Note.

When Bayview made its commitment to invest in the Company on August 25, 2003, the fair value of the Company's common stock to be received upon conversion of the Preferred Stock was greater than the conversion price of the preferred stock, which resulted in a beneficial conversion feature. Accordingly, the Company calculated a $656,096 beneficial conversion feature which has been recorded as a deemed dividend in the statement of operations for the year ended December 31, 2003.

Balances of long-term obligations as of December 31:

	2003	2002
Merrill Lynch Loan	$ -	$ 304,589
Wells Loan	2,775,000	-
Bayview Term Note	2,000,000	-
	4,775,000	304,589
Discount on Bayview Term Note	(424,988)	-
	$ 4,350,012	$ 304,589

Balances on the Wells Loan and Bayview Term Note mature in June 2007 and August 2008, respectively.

6. 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 $162,000, $136,000 and $148,000 for the years ended December 31, 2003, 2002 and 2001.

Minimum rent payments due under operating leases are as follows:

Years ending December 31:	
2004	$252,000
2005	236,000
2006	236,000
2007	177,000
2008	15,000
Thereafter	-

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.

7. 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 $140,000, $132,000 and $122,000 for the years ended December 31, 2003, 2002 and 2001.

8. 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 282,850 shares of common stock are reserved for additional grants of options under the plan at December 31, 2003. 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, 2001	968,905	$ 2.12
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
Granted	496,300	0.80
Exercised	(6,250)	0.39
Forfeited	(201,450)	2.88
Outstanding at December 31, 2003	1,710,900	$ 0.88

	Number of Shares	Weighted Average Exercise Price
Options exercisable at December 31:		
2003	947,575	$1.05
2002	852,500	$1.67
2001	799,663	$2.12

HEALTH FITNESS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

The following table summarizes information about stock options at December 31, 2003:

	Options Outstanding			Options Exercisa	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life In Years	Weighted Average Exercise Price	Number Exercisable	Wei Av Exe P
$0.30 - $0.39	495,600	3.57	$0.33	215,000	$0
0.47 - .69	724,300	4.46	0.55	465,075	0
0.95 - 1.25	291,000	6.62	1.17	67,500	1
3.00	200,000	3.36	3.00	200,000	3

1,710,900	4.44	$0.88	947,575	$1
=========			=======	

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 351,815 shares are unissued and remain available for issuance at December 31, 2003. There were 53,423 and 32,411 shares issued under the plan during 2003 and 2002. 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.

In December 2003, a warrant to purchase 1,210,320 shares of common stock was issued to Bayview in connection with acquisition financing provided to the Company. The Warrant will be exercisable at any time for a period of ten years at an exercise price equal to $0.50 per share, and the shares obtainable upon exercise of the Warrant may be put to the Company at fair market value (net of the exercise price) upon a change of control or default.

In December 2003, a warrant to purchase 100,000 shares of common stock was issued to Goldsmith, Agio, Helms Securities, Inc. for broker services provided to the Company in connection with the JJHCS acquisition (the "Goldsmith Warrant"). The Goldsmith Warrant will be exercisable at any time for a period of five years at an exercise price equal to $0.50 per share.

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HEALTH FITNESS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

A summary of the stock warrants activity is as follows:

	Number of Shares	Exercise Price Per Share
Outstanding at January 1, 2001	1,617,497	0.30 - 4.00
Forfeited	(250,800)	2.19 - 3.00
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
Granted	1,310,320	0.50
Forfeited	(466,697)	1.00 - 4.00
Outstanding at December 31, 2003	1,460,320	0.30 - 0.50

Warrants exercisable at December 31:		
2003	1,460,320	$ 0.30 - 0.50
2002	616,697	0.30 - 4.00
2001	1,366,697	0.30 - 4.00

9. INCOME TAXES

Income tax expense (benefit) consists of the following:

	2003	2002	2001
Current	$ 78,760	$ (2,567)	$ 71,015
Deferred	449,776	(2,209,076)	(777,300)
	$ 528,536	$(2,211,643)	$(706,285)

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:

	2003	2002	2001
Tax expense computed at statutory rates	$ 394,800	$ 268,300	$ 322,700
State tax benefit, net of federal effect	51,800	38,400	46,900
Nondeductible goodwill amortization	-	10,200	156,600
Change in valuation allowance	-	(2,501,200)	(1,237,300)
Adjustment to income tax provision accruals	76,000	(53,200)	-
Other	5,936	25,857	4,815
	$ 528,536	$(2,211,643)	$ (706,285)

At December 31, 2003, the Company had approximately $6,156,000 of federal operating loss carryforwards. The carryforwards expire through 2019. A portion of the operating loss carryforwards were used in 2003 to reduce federal taxes payable by approximately $440,000.

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

	2003	2002
Current:		
Allowances	$ 52,400	$ 33,400
Accrued employee benefits	141,900	98,200
Self funded insurance	-	79,900
Tax loss carryforwards	656,000	520,000
Net current asset	850,300	731,500
Noncurrent:		
Depreciation and amortization	31,900	(500)
Tax loss carryforwards	1,608,400	2,225,276
Other	46,001	30,100
Net non-current asset	1,686,301	2,254,876
Net deferred tax asset	2,536,601	2,986,376
Less valuation allowance	-	-
	$ 2,536,601	$ 2,986,376

10. ACCOUNTING PRONOUNCEMENTS

ADOPTION OF ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002 the Company adopted 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, 2003 and 2002.

The pro forma effect of adopting SFAS 142 on net earnings and net earnings per share for the years ended December 31, 2001 is as follows:

	2001
Net earnings applicable to common shareholders, as reported	$1,806,001
Goodwill amortization	400,661

Adjusted net earnings applicable to common shareholders	$2,206,662

HEALTH FITNESS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

Basic net earnings per share:	
Net earnings applicable to common shareholders, as reported	$0.15
Goodwill amortization	0.03
Adjusted net earnings applicable to common shareholders	$0.18
Diluted net earnings per share:	
Net earnings applicable to common shareholders, as reported	$0.15
Goodwill amortization	0.03
Adjusted net earnings applicable to common shareholders	$0.18

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, 2003.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued Financial Interpretations No. 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and addresses consolidation by business enterprises of variable interest entities. FIN 46 applies immediately to variable interest entities created or obtained after January 31, 2003 and applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. This interpretation is not anticipated to have an impact on the Company's consolidated financial position or results of operations.

In April 2003, the FASB issued Statement 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. Statement 149 clarifies implementation issues and amends Statement 133, to include the conclusions reached by the FASB on certain FASB Staff Implementation Issues that, while inconsistent with Statement 133's conclusions, were considered by the Board to be preferable, amends discussion of financial guarantee contracts and the application of the shortcut method to an interest-rate swap agreement that includes an embedded option, and amends other pronouncements. Statement 149 is effective to contracts entered into or modified, and hedging arrangements designated after June 30, 2003, with various exceptions as outlined in the statement. Adoption of Statement 149 is not anticipated to have an impact on the Company's consolidated financial position or results of operations.

In May 2003, the FASB issued Statement 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. Statement 150 changes the classification in the statement of financial position of certain common financial instruments from either equity or mezzanine presentation to liabilities and requires an issuer of those financial statements to recognize changes in fair value or redemption amount, as applicable, in earnings. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period

beginning after June 15, 2003. Adoption of Statement 150 is not anticipated to have an impact on the Company's financial position or results of operations.

11. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Quarter ended		
	March 31,	June 30,	September 3
2003			
Revenue	$ 7,518,205	$ 7,732,626	$ 7,445,09
Gross profit	1,654,399	1,581,142	1,465,76
Net earnings applicable to common shareholders	267,980	217,333	87,78
Net earnings per share			
Basic	$ 0.02	$ 0.02	$ 0.0
Diluted	0.02	0.02	0.0
Weighted average common shares outstanding			
Basic	12,308,321	12,322,908	12,341,28
Diluted	12,404,312	12,467,821	12,743,44

	Quarter ended		
	March 31,	June 30,	September 3
2002			
Revenue	$ 6,687,394	$ 6,686,808	$ 6,934,75
Gross profit	1,474,291	1,453,537	1,420,44
Net earnings	787,321	771,188	777,46

Net earnings per share			
Basic	$ 0.06	$ 0.06	$ 0.0
Diluted	0.06	0.06	0.0
Weighted average common shares outstanding			
Basic	12,265,250	12,265,250	12,289,55
Diluted	12,396,891	12,486,488	12,413,53

	Quarter ended		
	March 31,	June 30,	September 3
2001			
Revenue	$ 6,426,456	$ 6,578,716	$ 6,356,48
Gross profit	1,366,985	1,487,600	1,519,42
Net earnings	457,458	222,178	182,87
Net earnings per share			
Basic	$ 0.04	$ 0.02	$ 0.0
Diluted	0.04	0.02	0.0
Weighted average common shares outstanding			
Basic	12,165,250	12,165,250	12,264,16
Diluted	12,690,417	12,711,750	12,503,37

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HEALTH FITNESS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

12. SUBSEQUENT EVENT

In February 2003, the Company paid $142,411 of additional purchase price to Johnson & Johnson Healthcare Systems Inc for the acquisition of its Health & Fitness Services Business. The additional purchase price was paid as a result of two fitness center management contracts that assigned to the Company subsequent to the close of the acquisition. The entire amount will be recorded to goodwill in 2004.

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HEALTH FITNESS CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other accounts Describe	Dedu Des

Trade and other accounts receivable allowances:				
Year ended December 31, 2003	$ 88,900	$ 61,500	-	$ (1
Year ended December 31, 2002	84,700	5,400	-	(
Year ended December 31, 2001	262,600	(28,000)	-	(14

(a) Accounts receivable written off as uncollectible

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

PART 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	59	President, Chief Executive Officer and Director
Wesley W. Winnekins	42	Chief Financial Officer and Treasurer
James A. Narum	47	Senior Vice President-Corporate Business Development
Jeanne C. Crawford	46	Vice President-Human Resources and Secretary

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 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 National Vice President of Account Services since December 2003, Senior Vice President-Corporate Business Development from December 2001 to December 2003, 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", "Code

of Ethics" and "Section 16(a) Beneficial Ownership Reporting Compliance" which appear in the Company's definitive proxy statement for its 2004 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 2004 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 2004 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 2004 Annual Meeting.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference to the section entitled "Audit Fees", which appears in our definitive proxy statement for our 2004 Annual Meeting.

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, 2003 and 2002 and for each of the three years in the period ended December 31, 2003

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Earnings for each of the three years in the period ended December 31, 2003

Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2003

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2003

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

A Form 8-K dated November 11, 2003 was filed on November 13, 2003 to report that a press release had been issued to announce the Company's financial results for the third quarter ending September 30, 2003.

A Form 8-K dated and filed on December 8, 2003 to report that a press release had been issued to announce the Company had completed its purchase of the business assets of the Health & Fitness Services Division of Johnson & Johnson Health Care Systems Inc. pursuant to an Asset Purchase Agreement for $4,785,389.

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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: March 30, 2004

HEALTH FITNESS CORPORATION

By /s/ Jerry Noyce.

Jerry Noyce
Chief Executive Officer
(Principal Executive Officer)

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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.

Signature		Dat
/s/ Jerry Noyce Jerry Noyce	Chief Executive Officer and Director (principal executive officer)	March 30
/s/ Wesley Winnekins Wesley Winnekins	Chief Financial Officer (principal financial and accounting officer)	March 30
/s/ James A. Bernards		

James A. Bernards	Director	March 30
/s/ K. James Ehlen, MD		
K. James Ehlen, MD	Director	March 30
/s/ John C. Penn		
John C. Penn	Director	March 30
/s/ Mark W. Sheffert		
Mark W. Sheffert	Director	March 30
/s/ Linda Hall Whitman		
Linda Hall Whitman	Director	March 30
/s/ Rodney A. Young		
Rodney A. Young	Director	March 30

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EXHIBIT INDEX
HEALTH FITNESS CORPORATION
FORM 10-K

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 10-K 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-incorporated by reference to the Company's Form 10-K for the year ended December 31, 2002.
*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-incorporated by reference to the Company's Form 10-K for the year ended December 31, 2002.

Exhibit No.	Description
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 Services, Inc. incorporated by reference to the Company's Form 10Q for the quarter ended September 30, 2002
10.12	Credit Agreement, dated August 22, 2003, between the Company and Wells Fargo Bank, National Association - incorporated by reference to the Company's Quarterly Report on form 10-QSB for the quarter ended September 30, 2003
10.13	Securities Purchase Agreement, dated August 25, 2003, between the Company and certain of its subsidiaries, on the one hand, and Bayview Capital Partners LP, on the other hand - incorporated by reference to the Company's Quarterly Report on form 10-QSB for the quarter ended September 30, 2003
10.14	Asset Purchase Agreement, dated August 25, 2003, between the Company and Johnson & Johnson Health Care Systems Inc. - incorporated by reference to the Company's Quarterly Report on form 10-QSB for the quarter ended September 30, 2003
10.15	Third Amendment, dated August 25, 2003, to Standard Office Lease Agreement dated as of June 13, 1996, between the Company and NEOC Holdings LLC - incorporated by reference to the Company's Quarterly Report on form 10-QSB for the quarter ended September 30, 2003
**11.0	Statement re: Computation of Earnings per Share
**21.1	Subsidiaries

**23.1	Consent of Grant Thornton LLP
**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