UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

COMMISSION FILE NO. 000-25064

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

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

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

REGISTRANT'S TELEPHONE NUMBER (952) 831-6830

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

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

The number of shares outstanding of the registrant's common stock as of August 6, 2004 was: Common Stock, $0.01 par value, 12,560,976 shares

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

	June 30, 2004	Decemb 20
ASSETS		
CURRENT ASSETS		
Cash	$ --	$ 2
Trade and other accounts receivable, less allowances of $145,800 and $131,000	7,374,545	5,2

Prepaid expenses and other	348,538	1
Deferred tax assets	1,100,300	8
Total current assets	8,823,383	6,5
PROPERTY AND EQUIPMENT, net	178,187	1
OTHER ASSETS		
Goodwill	8,919,140	8,7
Customer contracts, less accumulated amortization of $471,500 and $67,400	1,258,472	1,6
Trademark, less accumulated amortization of $40,800 and $5,800	309,166	3
Other intangible assets, less accumulated amortization of $19,300 and $4,200	123,520	1
Cash held in escrow	473,738	4
Deferred tax assets	991,308	1,6
Other	44,610	
	$ 21,121,524	$ 19,8
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	$ 347,042	$ 5
Accrued salaries, wages, and payroll taxes	1,854,136	1,6
Other accrued liabilities	438,857	4
Accrued self funded insurance	646,784	2
Deferred revenue	1,433,533	1,4
Total current liabilities	4,720,352	4,2
LONG-TERM OBLIGATIONS	4,269,000	4,3
COMMITMENTS AND CONTINGENCIES	--	
CUMULATIVE CONVERTIBLE PREFERRED STOCK, 10,000,000 shares authorized, 1,033,751 and 1,003,833 issued and outstanding	1,487,032	1,4
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value; 50,000,000 shares authorized; 12,508,345 and 12,357,334 shares issued and outstanding	125,083	1
Additional paid-in capital	17,779,151	17,6
Accumulated comprehensive income	2,288	
Accumulated deficit	(7,261,382)	(8,0
	10,645,140	9,7
	$ 21,121,524	$ 19,8

See notes to consolidated financial statements.

HEALTH FITNESS CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	Three Months Ended June 30,		Six Months June 3
	2004	2003	2004
REVENUE	$ 13,129,715	$ 7,732,626	$ 25,796,089
COSTS OF REVENUE	9,687,357	6,151,484	19,266,794
GROSS PROFIT	3,442,358	1,581,142	6,529,295
OPERATING EXPENSES			
Salaries	1,429,569	789,216	2,772,278
Other selling, general and administrative	823,504	421,605	1,653,610
Amortization of acquired intangible assets	219,583	--	439,167
Total operating expenses	2,472,656	1,210,821	4,865,055
OPERATING INCOME	969,702	370,321	1,664,240
OTHER INCOME (EXPENSE)			
Interest expense	(128,344)	(13,451)	(262,596)
Other, net	469	(831)	1,390
EARNINGS BEFORE INCOME TAXES	841,827	356,039	1,403,034
INCOME TAX EXPENSE	342,873	138,706	552,373
NET EARNINGS	498,954	217,333	850,661
Dividend to preferred shareholders	28,200	--	43,200
NET EARNINGS APPLICABLE TO COMMON SHAREHOLDERS	470,754	217,333	807,461
NET EARNINGS PER SHARE:			
Basic	$ 0.04	$ 0.02	$ 0.06
Diluted	$ 0.03	$ 0.02	$ 0.05
WEIGHTED AVERAGE COMMON SHARES:			
Basic	12,483,979	12,322,908	12,447,374
Diluted	16,066,003	12,467,821	16,054,047

See notes to consolidated financial statements.

HEALTH FITNESS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months En	
	June 30,	
	2004	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 850,661	$
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	48,643	
Amortization of intangible assets	497,447	
Deferred taxes	444,993	
Common stock issued for compensation	60,600	
Changes in operating assets and liabilities, net of assets acquired:		
Trade and other accounts receivable	(2,156,321)	(
Prepaid expenses and other	(161,191)	
Other assets	18,109	(
Trade accounts payable	(226,107)	(
Accrued liabilities and other	654,281	(
Deferred revenue	6,476	(
Net cash provided by (used in) operating activities	37,591	(
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(49,612)	(
Acquisition of business	(193,566)	
Net cash used in investing activities	(243,178)	(
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under note payable	6,872,241	1,
Repayments of note payable	(6,996,472)	(1,
Proceeds from issuance of common stock	13,277	
Proceeds from the exercise of stock options	35,247	
Net cash provided by (used in) financing activities	(75,707)	
NET INCREASE (DECREASE) IN CASH	(281,294)	
CASH AT BEGINNING OF PERIOD	281,294	
CASH AT END OF PERIOD	$ --	$
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Supplemental cash flow information		
Cash paid for interest	$ 201,985	$
Cash paid for taxes	97,358	
Noncash investing and financing activities affecting cash flows:		
Dividend to preferred shareholders	43,200	

See notes to consolidated financial statements.

HEALTH FITNESS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. They should be read in conjunction with the annual financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. In the opinion of management, the interim consolidated financial statements include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of the results for interim periods presented. Operating results for the three and six months ended June 30, 2004 are not necessarily indicative of the operating results for the year ending December 31, 2004.

NOTE 2. 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.

At June 30, 2004, the Company had cash overdrafts of $11,541 representing checks written in excess of funds deposited, which are included in accounts payable for financial statement presentation.

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. The carrying value of goodwill is not amortized, but is tested for impairment on an annual basis or when factors indicating impairment are present. Projected discounted cash flows are used in assessing these assets.

Intangible Assets - The Company's intangible assets include customer contracts, trademark, and deferred financing costs and are amortized on a straight-line basis. Customer contracts represent the fair value assigned to acquired management contracts and are amortized over the remaining life of the contracts, 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.

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.

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

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

Comprehensive Income - Comprehensive income represents net earnings adjusted for foreign currency translation adjustments. Total comprehensive income was $804,042 and $485,313 for the six months ended June 30, 2004 and 2003.

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.

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

Use of Estimates - Preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3. 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). 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	$4,927,500
Acquisition costs incurred	836,879
Total purchase price	$5,764,379
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	3,610,379
	$5,764,379

During the six months ended June 30, 2004, an additional $142,111 was paid to JJHCS for two contract assignments. The Company also incurred an additional $51,455 of acquisition related costs. This additional purchase price was recorded to goodwill.

NOTE 4. 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 totaled $1,255,204, which was used to refinance a revolving line of credit with Merrill Lynch Business Financial Services, Inc. (the Merrill Lynch Loan). The Company repaid all amounts owed to Merrill Lynch Business Financial Services, Inc. and canceled the line of credit, which accrued interest at the one-month LIBOR rate plus 2.35%. On August 25, 2003, the Company made a draw of $2,250,000 on the Wells Loan, the proceeds of which were placed into escrow to fund a portion of the JJHCS asset purchase.

Working capital advances from the Wells Loan are based upon a percentage of the Company's eligible accounts receivable, less any amounts previously drawn. At the option of the Company, the Wells Loan bears interest at prime or the one-month LIBOR plus a margin of 2.25% to 2.75% based upon the Company's Senior Leverage Ratio (effective rate of 4.25% at June 30, 2004 and 4.00% at December 31, 2003). 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. Borrowing capacity under the Wells Loan totaled $6,500,000 and $7,000,000 at June 30, 2004 and December 31, 2003. At June 30, 2004, the Company had $2,650,770 outstanding under the Wells Loan. 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 fixed charge coverage ratio, minimum earnings before interest, taxes, depreciation and amortization, cash flow leverage ratio and a balance sheet leverage ratio. Beginning on January 31, 2004 and continuing to May 14, 2004, the Company was not in compliance with certain covenants relating to the Wells Loan. On May 14, 2004, Wells Fargo agreed to waive the noncompliance and amend the loan covenants, effective as of January 31, 2004. The Company believes the new loan covenants are more appropriate after taking into consideration the Company's actual financial position following the acquisition of the business assets of JJHCS. Wells Fargo was made aware of the noncompliance shortly after January 31, 2004 and agreed to continue making capital advances

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available to the Company throughout the period as new loan covenants were negotiated. Therefore, the noncompliance had no impact on the Company's liquidity, capital resources or results of operations. At June 30, 2004, the Company was in compliance with all of the new loan covenants.

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

On December 8, 2003 (the "Effective Date"), the $3,000,000 Bridge Note issued to Bayview was converted into a $2,000,000 term note (the "Term Note"), $1,000,000 of Series A Convertible Preferred Stock, $0.01 par value (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 bears 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 Bayview Investment contained identical financial covenants to those in the Wells Loan described above, and on May 14, 2004 Bayview agreed to join with Wells Fargo in waiving this noncompliance and amending the covenants. The noncompliance with these financial covenants had no impact on the Company's liquidity, capital resources or results of operations, and the Company believes the amended covenants are more appropriate after taking into consideration the Company's actual financial position following the acquisition of the business assets of JJHCS. At June 30, 2004, the Company was in compliance with all of its new loan 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 represented 8% of the Company's common stock outstanding on a fully diluted basis at the Effective Date, excluding the common stock issuable to Bayview upon conversion of the Preferred Stock. The Warrant is exercisable at any time for a period of ten years at an exercise price equal to $0.50 per share, and the shares obtainable upon exercise of the Warrant may be put to the Company at fair market value (net of the exercise price) upon a change of control or default.

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
	$3,000,000

The $432,192 difference between the $2,000,000 face value of the Term Note and its assigned relative fair value is being amortized as interest expense over the 5-year term of the Term Note. Balances of long-term obligations are as follows:

	June 30, 2004	December 31, 2003
Wells Loan	$ 2,650,770	$ 2,775,000
Bayview Term Note	2,000,000	2,000,000

	4,650,770	4,775,000
Discount on Bayview Term Note	(381,770)	(424,988)
	$ 4,269,000	$ 4,350,012

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

NOTE 5. STOCK-BASED COMPENSATION

The Company utilizes the intrinsic value method of accounting for its stock based employee compensation plans. All options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and accordingly, no compensation cost is reflected in net earnings for the three and six months ended June 30, 2004 and 2003. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value method of accounting for stock options:

	Three Months ended June 30,		Six Months ended June 30,	
	2004	2003	2004	2003
Net earnings, applicable to common Shareholders - basic	$ 470,754	$ 217,333	$ 807,461	$ 485,313
Add: Dividends to preferred shareholders	28,200	--	43,200	--
Net earnings - diluted	498,954	217,333	850,661	485,313
Less: Compensation expense determined under the fair value method, net of tax	(90,371)	(25,316)	(113,992)	(37,306)
Proforma net earnings - basic	$ 380,383	$ 192,017	$ 693,469	$ 448,007
Proforma net earnings - diluted	$ 408,583	$ 192,017	$ 736,669	$ 448,007
Earnings per Share:				
Basic, as reported	$ 0.04	$ 0.02	$ 0.06	$ 0.04
Basic, proforma	$ 0.03	$ 0.02	$ 0.06	$ 0.04
Diluted, as reported	$ 0.03	$ 0.02	$ 0.05	$ 0.04
Diluted, proforma	$ 0.03	$ 0.02	$ 0.05	$ 0.04

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:

	2004	20
Dividend yield	None	Non
Expected volatility	88%	90
Expected life of option	1-4 years	1-4 y
Risk-free interest rate	3.27%	2.9
Weighted average fair value of options on grant date	$1.01	$0.2

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NOTE 6. INCOME TAXES

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

NOTE 7. STOCK OPTIONS

The Company maintains a stock option plan for the benefit of certain eligible employees and directors of the Company. A total of 1,530,350 shares of common stock are reserved for additional grants of options under the plan at June 30, 2004. Generally, the options outstanding (1) are granted at prices equal to the market value of the stock on the date of grant, (2) vest over various terms and, (3) expire over a period of five or ten years from the date of grant.

A summary of stock option activity for the six months ended June 30, 2004 is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2003	1,710,900	$0.88
Granted	165,100	2.07
Exercised	(59,750)	0.53
Forfeited	(31,250)	0.44
Outstanding at March 31, 2004	1,785,000	1.01
Granted	120,000	1.51
Exercised	(6,350)	0.53
Forfeited	(1,350)	0.47
Outstanding at June 30, 2004	1,897,300	$1.04

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in Item 1 of Part 1 of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

CRITICAL ACCOUNTING POLICIES. Our most critical accounting policies, which are those that require significant judgment, include: revenue recognition, trade and other accounts receivable, goodwill and stock-based compensation. A more in-depth description of these can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

GENERAL. 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 of America 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 and occupational health services. 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.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED JUNE 30, 2004 AS COMPARED TO THE QUARTER ENDED JUNE 30, 2003.

REVENUE. Revenues increased $5,397,000, or 69.8%, to $13,130,000 for the three months ended June 30, 2004, from $7,733,000 for the three months ended June 30, 2003. This increase is primarily attributed to the acquisition of the business assets of the Health & Fitness Services Business of Johnson & Johnson Health Care Systems Inc. ("JJHCS").

GROSS PROFIT. Gross profit increased $1,861,000, or 117.7%, to $3,442,000 for the three months ended June 30, 2004, from $1,581,000 for the three months ended June 30, 2003. This increase is primarily attributed to the acquisition of JJHCS. In addition, the JJHCS acquisition improved gross profit as a percent of revenue, increasing to 26.2% for the three months ended June 30, 2004, compared to 20.4% for the three months ended June 30, 2003.

OPERATING EXPENSES AND OPERATING INCOME. Operating expenses increased $1,262,000 to $2,473,000 for the three months ended June 30, 2004 from $1,211,000 for the three months ended June 30, 2003. Of this increase, $220,000 represents a non-cash expense related to the amortization of acquired intangible assets. The remaining increase of $1,042,000 is primarily attributed to the cost of salaries, benefits and other expenses of the management team of JJHCS.

OTHER INCOME AND EXPENSE. Interest expense increased $115,000 to $128,000 for the three months ended June 30, 2004, compared to $13,000 for the same period in

2003. This increase is due to debt facilities the company secured to finance the JJHCS acquisition and to provide working capital for the combined company. The Company's cost of borrowed funds increased to an average of 6.7% for the second quarter of 2004 from 3.5% for the second quarter of 2003.

INCOME TAXES. Income tax expense increased $204,000 to $343,000 for the three months ended June 30, 2004 compared to $139,000 for the same period in 2003. The increase is primarily due to the increase in operating profit.

DIVIDENDS TO PREFERRED SHAREHOLDERS. To finance the Company's acquisition of JJHCS, the Company sold $1,000,000 of Preferred Stock to Bayview. The Preferred Stock was issued 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"). For the quarter ended June 30, 2004, the Company accrued dividends of $28,000, including a dividend of approximately $13,000 related to a beneficial conversion feature associated with the PIK Dividends.

NET EARNINGS APPLICABLE TO COMMON SHAREHOLDERS. As a result of the above, net earnings applicable to common shareholders for the three months ended June 30, 2004 increased $254,000, or 117.0%, to $471,000 from $217,000 for the three months ended June 30, 2003.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2003 AS COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2002.

REVENUE. Revenues increased $10,545,000, or 69.1%, to $25,796,000 for the six months ended June 30, 2004, from $15,251,000 for the six months ended June 30, 2003. This increase is primarily attributed to the acquisition of JJHCS.

GROSS PROFIT. Gross profit increased $3,293,000, or 101.8%, to $6,529,000 for the six months ended June 30, 2004, from $3,236,000 for the six months ended June 30, 2003. This increase is primarily attributed to the acquisition of JJHCS. In addition, the JJHCS acquisition improved gross profit as a percent of revenue, increasing to 25.3% for the six months ended June 30, 2004 compared to 21.2% for the six months ended June 30, 2003.

OPERATING EXPENSES AND OPERATING INCOME. Operating expenses increased $2,461,000 to $4,865,000 for the six months ended June 30, 2004 from $2,404,000 for the six months ended June 30, 2003. Of this increase, $439,000 represents a non-cash expense related to the amortization of acquired intangible assets. The remaining increase of $2,022,000 is primarily attributed to the cost of salaries, benefits and other expenses of the management team of JJHCS.

OTHER INCOME AND EXPENSE. Interest expense increased $239,000 to $263,000 for the six months ended June 30, 2004, compared to $24,000 for the same period in 2003. This increase is due to debt facilities the company secured to finance the JJHCS acquisition and to provide working capital for the combined company. The Company's cost of borrowed funds increased to an average of 6.8% for the six months ended June 30, 2004 from 3.7% for the same period in 2003.

INCOME TAXES. Income tax expense increased $231,000 to $552,000 for the six months ended June 30, 2004 compared to $321,000 for the same period in 2003. The increase is primarily due to the increase in operating profit.

DIVIDENDS TO PREFERRED SHAREHOLDERS. For the six months ended June 30, 2004, the Company accrued dividends on the Preferred Stock held by Bayview in the amount of $43,000, including a dividend of approximately $13,000 related to a beneficial conversion feature associated with the PIK Dividends.

NET EARNINGS APPLICABLE TO COMMON SHAREHOLDERS. As a result of the above, net earnings applicable to common shareholders for the six months ended June 30, 2004 increased $322,000, or 66.4%, to $807,000 from $485,000 for the six months ended June 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital increased $1,848,000 to $4,103,000 at June 30, 2004, compared to working capital of $2,255,000 at December 31, 2003. The increase in working capital is primarily due to an increase in accounts receivable resulting from the fitness and wellness management contracts acquired in the JJHCS transaction.

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 totaled $1,255,204, which was used to refinance a revolving line of credit with Merrill Lynch Business Financial Services, Inc. (the Merrill Lynch Loan). The Company repaid all amounts owed to Merrill Lynch Business Financial Services, Inc. and canceled the line of credit, which accrued interest at the one-month LIBOR rate plus 2.35%. On August 25, 2003, the Company made a draw of $2,250,000 on the Wells Loan, the proceeds of which were placed into escrow to fund a portion of the JJHCS asset purchase.

Working capital advances from the Wells Loan are based upon a percentage of the Company's eligible accounts receivable, less any amounts previously drawn. At the option of the Company, the Wells Loan bears interest at prime or the one-month LIBOR plus a margin of 2.25% to 2.75% based upon the Company's Senior Leverage Ratio (effective rate of 4.25% at June 30, 2004 and 4.00% at December 31, 2003). 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. Borrowing capacity under the Wells Loan totaled $6,500,000 and $7,000,000 at June 30, 2004 and December 31, 2003. At June 30, 2004 the Company had $2,650,770 outstanding under the Wells Loan. 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 fixed charge coverage ratio, minimum earnings before interest, taxes, depreciation and amortization, cash flow leverage ratio and a balance sheet leverage ratio. Beginning on January 31, 2004 and continuing to May 14, 2004, the Company was not in compliance with certain covenants relating to the Wells Loan. On May 14, 2004, Wells Fargo agreed to waive the noncompliance and amend the loan covenants, effective as of January 31, 2004. The Company believes the new loan covenants are more appropriate after taking into consideration the Company's actual financial position following the acquisition of the business assets of JJHCS. Wells Fargo was made aware of the noncompliance shortly after January 31, 2004 and agreed to continue making capital advances available to the Company throughout the period as new loan covenants were negotiated. Therefore, the noncompliance had no impact on the Company's liquidity, capital resources or results of operations. At June 30, 2004, the Company was in compliance with all of the new loan covenants.

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

On December 8, 2003 (the "Effective Date"), the $3,000,000 Bridge Note issued to Bayview was converted into a $2,000,000 term note (the "Term Note"), $1,000,000 of 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 bears 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

Bayview Investment is secured by a subordinated security interest in substantially all of the Company's assets. The Bayview Investment contained identical financial covenants to those in the Wells Loan described above, and on May 14, 2004 Bayview agreed to join with Wells Fargo in waiving this noncompliance and amending the covenants. The noncompliance with these financial covenants had no impact on the Company's liquidity, capital resources or results of operations, and the Company believes the amended covenants are more appropriate after taking into consideration the Company's actual financial position following the acquisition of the business assets of JJHCS. At June 30, 2004, the Company was in compliance with all of its new loan 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).

As of June 30, 2004, the Company did not maintain a cash balance as available funds were used to pay down the Wells Loan. In addition, the Company has no off-balance sheet arrangements or transactions with unconsolidated, limited purpose entities. Refer to the footnotes in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 for disclosure related to the Company's "Commitments and Contingencies."

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

RECENTLY ISSUED ACCOUNTING POLICIES

As indicated in our notes to the financial statements, we are not aware of any recently issued accounting pronouncements that will have a material impact on the Company's financial position or results of operations.

RECENTLY PASSED LEGISLATION

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

CAUTIONARY STATEMENT

The foregoing discussion and other statements in this report contain various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are based on current expectations or beliefs concerning future events. Such statements can be identified by the use of terminology such as "anticipate,"

"believe," "estimate," "expect," "intend," "may," "could," "possible," "plan," "project," "will," "forecast" and similar words or expressions, specifically including a statement regarding the Company's belief that sources of capital to meet future obligations will be provided by cash generated through operations and its revolving line of credit. These forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that may cause the Company's actual results to differ materially from the results discussed in these statements. Please refer to Management's Discussion and Analysis contained within the Company's Annual Report on Form 10-K for the year ended December 31, 2003, for cautionary statements on important factors to consider in evaluating the forward-looking statements included in this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Item 3 (Legal Proceedings) of the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

At the Annual Meeting of Shareholders on May 18, 2004, the Company's shareholders approved an increase in the number of shares of capital stock that the Company is authorized to issue from 30,000,000 to 60,000,000, of which 50,000,000 shall be designated as common shares and 10,000,000 shall be designated as preferred stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Beginning on January 31, 2004 and continuing to May 14, 2004, the Company was not in compliance with certain covenants relating to the Wells Loan. The Company also was not in compliance with the identical covenants set forth in the Securities Purchase Agreement with Bayview pertaining to a $2,000,000 term note and $1,000,000 of Preferred Stock issued to Bayview on December 8, 2003. Wells Fargo continued to make working capital available throughout this period of noncompliance, and on May 14, 2004, Wells Fargo and Bayview agreed to waive the noncompliance and to amend the covenants, effective as of January 31, 2004. Therefore, the noncompliance had no impact on the Company's liquidity, capital resources or results of operations. At June 30, 2004 the Company was in compliance with all new loan covenants.

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

(a) The Annual Meeting of the Company's shareholders was held on Tuesday, May 18, 2004.

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

Nominee	Number of Votes For	Number of Votes Withheld
James A. Bernards	10,798,552	226,656
K. James Ehlen, M.D	10,416,473	608,735
Jerry V. Noyce	10,976,998	48,210
John C. Penn	10,760,448	264,760
Mark W. Sheffert	10,978,548	46,660
Linda Hall Whitman	10,717,778	307,430
Rodney A. Young	10,717,878	307,330
Cary Musech	10,798,552	226,656

(c) By a vote of 4,852,628 shares in favor, 626,316 shares opposed, 41,895 shares abstaining, and 5,504,369 shares represented by broker nonvotes, the shareholders approved an increase in the number of shares of capital stock that the Company is authorized to issue, from 30,000,000 to 60,000,000 shares, of which 50,000,000 shall be designated as common shares and 10,000,000 shall be designated as preferred stock.

(d) By a vote of 4,838,896 shares in favor, 635,856 shares opposed, 46,087 shares abstaining, and 5,504,369 shares represented by broker nonvotes, the shareholders approved a 1,500,000 share increase in the number of shares reserved for the Company's 1995 Stock Option Plan.

(e) By a vote of 10,961,163 shares in favor, 9,300 shares opposed, 54,745 shares abstaining, and no shares represented by broker nonvotes, the shareholders approved the selection of Grant Thornton LLP as the Company's independent auditors for the current fiscal year.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

See Exhibit Index on page following signatures

(b) Reports on Form 8-K

On May 10, 2004, the Company filed a Form 8-K providing a press release dated May 4, 2004 regarding its 2004 first quarter financial results.

On May 20, 2004, the Company filed a Form 8-K providing certain forward-looking statements and other information regarding management's 2004 financial goals and business priorities that the Company presented at its annual shareholder meeting on May 18, 2004.

On June 10, 2004, the Company filed a Form 8-K providing a press release dated June 10, 2004 announcing that Robert J. Marzec, former audit partner of the Minneapolis office of PricewaterhouseCoopers, has been named to its board of directors

SIGNATURES

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

Dated: August 12, 2004
HEALTH FITNESS CORPORATION.

By /s/ Jerry V. Noyce

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

By /s/ Wesley W. Winnekins

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

EXHIBIT INDEX
HEALTH FITNESS CORPORATION
FORM 10-Q

Exhibit #	Description
*11.0	Statement re: Computation of Earnings per Share
*31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Filed herewith