AGL RESOURCES INC
Form 424B5
March 18, 2011
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Filed Pursuant to Rule 424(b)(5)
Registration Nos. 333-168901 and 333-168901-02

Calculation of Registration Fee

Title of Class of Securities Offered	Amount to be Registered	Maximum Offering Price Per Unit	Maximum Aggregate Offering Price	Amount of Registration Fee
5.875% Senior Notes due 2041	$500,000,000	99.833%	$499,165,000	$57,953.06(1)

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933.

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Prospectus Supplement

(To Prospectus dated August 17, 2010)

$500,000,000

AGL CAPITAL CORPORATION

5.875% Senior Notes due 2041

This is a public offering by AGL Capital Corporation, a wholly-owned subsidiary of AGL Resources Inc., of $500,000,000 of its 5.875% Senior Notes due 2041. AGL Capital will pay interest on the senior notes on March 15 and September 15 of each year, beginning March 15, 2011. The senior notes will mature on March 15, 2041. The senior notes may be redeemed, in whole or in part, at any time and from time to time, as described under the caption Description of the Senior Notes Optional Redemption.

The senior notes will not be listed on any securities exchange. The senior notes will initially be issued in denominations of $2,000 and integral multiples of $1,000 in excess thereof.

AGL Resources will fully and unconditionally guarantee payment of the senior notes. The senior notes and the guarantee will be unsecured and will rank equally with all the other unsecured and unsubordinated obligations from time to time outstanding of AGL Capital and AGL Resources, respectively.

See Risk Factors on page S-10 to read about certain factors you should consider before investing in the senior notes.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this Prospectus Supplement or the accompanying Prospectus. Any representation to the contrary is a criminal offense.

	Per Senior Note	Total
Public offering price[(1)]	99.833%	$ 499,165,000
Underwriting discount	0.875%	$ 4,375,000
Proceeds, before expenses, to AGL Capital[(1)]	98.958%	$ 494,790,000

(1) Plus accrued interest, if any, from March 21, 2011, if settlement occurs after that date.

The senior notes are expected to be delivered on or about March 21, 2011 through the book-entry facilities of The Depository Trust Company for the accounts of its participants, including Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme, Luxembourg.

Joint Book-Running Managers

Goldman, Sachs & Co.   Morgan Stanley   RBS   BofA Merrill Lynch

Co-Managers

Credit Agricole CIB   Deutsche Bank Securities   Mitsubishi UFJ Securities   Scotia Capital

SunTrust Robinson Humphrey   US Bancorp   Wells Fargo Securities

Prospectus Supplement dated March 16, 2011

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Prospectus Supplement

Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of senior notes and other matters relating to us and our financial condition. The second part is the accompanying prospectus, which contains more general information about the terms and conditions of securities we may offer from time to time, some of which will not apply to the senior notes.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus and any free writing prospectus we send to you or file with the Securities and Exchange Commission, referred to as the SEC. If the information in this prospectus supplement varies from the information contained or incorporated by reference in the accompanying prospectus, you should rely on the information in this prospectus supplement. No person is authorized to provide you with information that is different from the information provided or incorporated by reference in this prospectus supplement or to offer the senior notes in any jurisdiction where the offer is not permitted. It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus, including the information and documents incorporated by reference therein as well as any free writing prospectus we send to you or file with the SEC, in making your investment decision. See Where You Can Find More Information on page S-27 of this prospectus supplement. You should not assume that the information provided by this prospectus supplement, the accompanying prospectus, any free writing prospectus or any document incorporated by reference is accurate as of any date other than the date of the document that contains the information.

Unless stated otherwise, references in this prospectus supplement to AGL Capital, we, us or our refer to AGL Capital Corporation. References this prospectus supplement to AGL Resources refer to AGL Resources Inc. and its subsidiaries unless otherwise indicated or the context otherwise requires.

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FORWARD-LOOKING STATEMENTS

This prospectus and accompanying prospectus supplement and the documents incorporated by reference herein contain forward-looking statements within the meaning of the federal securities laws. These statements, which may relate to such matters as future earnings, growth, supply and demand, costs, subsidiary performance, new technologies and strategic initiatives, involve risks and uncertainties. Forward-looking statements involve matters that are not historical facts, and because these statements involve anticipated events or conditions, forward-looking statements often include words such as anticipate, assume, believe, can, could, estimate, expect, forecast, future, goal, indic outlook, plan, potential, predict, project, proposed, seek, should, target, would, or similar expressions. You are cautioned not reliance on forward-looking statements. AGL Resources expectations are not guarantees and are based on currently available competitive, financial and economic data along with our operating plans. While AGL Resources believes that its expectations are reasonable in view of currently available information, these expectations are subject to future events, risks and uncertainties, and there are numerous factors many beyond AGL Resources control that could cause actual results to vary significantly from these expectations. Such events, risks and uncertainties include, but are not limited to:

changes in price, supply and demand for natural gas and related products;

the impact of changes in state and federal legislation and regulation including any changes related to climate change;

actions taken by government agencies on rates and other matters;

concentration of credit risk;

utility and energy industry consolidation;

the impact on cost and timeliness of construction projects by government and other approvals, development project delays, adequacy of supply of diversified vendors, unexpected change in project costs, including the cost of funds to finance these projects;

the impact of acquisitions and divestitures; direct or indirect effects on AGL Resources business, financial condition or liquidity resulting from a change in AGL Capital s credit ratings or the credit ratings of AGL Resources counterparties or competitors;

interest rate fluctuations;

financial market conditions, including recent disruptions in the capital markets and lending environment and the current economic downturn;

general economic conditions;

uncertainties about environmental issues and the related impact of such issues;

- the impact of changes in weather, including climate change, on the temperature-sensitive portions of AGL Resources business;
- the impact of natural disasters such as hurricanes on the supply and price of natural gas;
- acts of war or terrorism; and
- the risk factors described herein and in AGL Resources filings with the SEC, and other factors described in detail in such filings.

In addition, actual results may differ materially due to the expected timing and likelihood of completion of AGL Resources proposed merger with Nicor, Inc., including:

- the timing, receipt and terms and conditions of any required governmental and regulatory approvals of the proposed merger that could reduce anticipated benefits or cause the parties to abandon the merger;

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- the diversion of management s time and attention from AGL Resources ongoing business during this time period;

- the ability to maintain relationships with customers, employees or suppliers as well as the ability to successfully integrate the businesses and realize cost savings and any other synergies; and

- the risk that the credit ratings of the combined company or its subsidiaries may be different from what the companies expect.

You are cautioned that the important factors described above, or described elsewhere in this prospectus supplement and the accompanying prospectus or in documents incorporated by reference herein, could cause AGL Resources business, results of operations or financial condition to differ significantly from those expressed in any forward-looking statements. There also may be other factors that cannot be anticipated or that are not described herein or in documents incorporated by reference herein that could cause results to differ significantly from expectations.

Forward-looking statements are only as of the date they are made. Neither AGL Capital nor AGL Resources undertake any obligation to update or revise any forward-looking statement, whether as a result of future events, new information or otherwise, except as required by law.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere or incorporated by reference into this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before deciding to purchase our senior notes. You should read this entire prospectus supplement and the accompanying prospectus carefully, as well as the information incorporated by reference into these documents, before deciding to invest in our senior notes.

AGL Capital Corporation

We are a 100%-owned subsidiary of AGL Resources. We were established to provide for the ongoing financing needs of AGL Resources through a commercial paper program, the issuance of various debt and hybrid securities and other financing arrangements. Our senior notes are guaranteed by AGL Resources.

AGL Resources Inc.

Overview

AGL Resources is an energy services holding company, headquartered in Atlanta, Georgia, whose principal business is the distribution of natural gas in six states: Florida, Georgia, Maryland, New Jersey, Tennessee and Virginia. AGL Resources operates six utilities, which combined, serve approximately 2.3 million end-use customers. AGL Resources is also involved in several related and complementary businesses, including retail natural gas marketing to end-use customers in Georgia, Ohio and Florida; natural gas asset management and related logistics activities for its own utilities as well as for nonaffiliated companies; natural gas storage arbitrage and related activities; and the development and operation of high-deliverability natural gas storage assets.

AGL Resources manages these businesses through four operating segments distribution operations, retail energy operations, wholesale services and energy investments and a non-operating corporate segment.

Distribution Operations

The distribution operations segment consists of six natural gas local distribution utilities: Atlanta Gas Light Company, Virginia Natural Gas, Inc., Elizabethtown Gas, Florida City Gas, Chattanooga Gas Company and Elkton Gas. These utilities construct, manage and maintain intrastate natural gas pipelines and distribution facilities.

- ***Atlanta Gas Light*** is the largest natural gas distributor in the Southeast based on number of customers, providing gas delivery service to more than 1.5 million residential, commercial and industrial customers.

- ***Virginia Natural Gas*** provides natural gas service to approximately 275,000 residential, commercial and industrial customers in southeastern Virginia.

- ***Elizabethtown Gas*** provides natural gas service to approximately 274,000 residential, commercial and industrial customers in northwestern and east central New Jersey.

- ***Florida City Gas*** provides natural gas service to approximately 103,000 residential, commercial and industrial customers in southeastern and east central Florida.

- ***Chattanooga Gas*** provides natural gas service to approximately 62,000 residential, commercial and industrial customers in southeastern Tennessee.

Elkton Gas provides natural gas service to approximately 6,000 residential, commercial and industrial customers in northeastern Maryland.

Retail Energy Operations

SouthStar Energy Services LLC is a joint venture operating in Georgia under the trade name Georgia Natural Gas. This business markets natural gas and related services to retail customers on an unregulated basis, primarily in Georgia as well as Ohio and Florida. In addition, SouthStar markets gas to larger commercial and industrial customers in Alabama, Tennessee, North Carolina, South Carolina, Florida and Georgia. Based on its market share, SouthStar is the largest marketer of natural gas in Georgia, with average customers of approximately 500,000 over the last three years. AGL Resources wholly-owned subsidiary, Georgia Natural Gas Company, owns a non-controlling 85% ownership interest in SouthStar, and Piedmont Natural Gas Company, through its subsidiary Piedmont Energy, owns a 15% interest.

Wholesale Services

The wholesale services segment consists primarily of Sequent Energy Management, L.P., AGL Resources wholly-owned subsidiary involved in asset management and optimization, storage, transportation, producer and peaking services and wholesale marketing. The wholesale services segment also includes AGL Resources wholly-owned subsidiary, Compass Energy, which provides natural gas supply and services to commercial, industrial and governmental customers primarily in Kentucky, Ohio, Pennsylvania, Virginia and West Virginia.

Sequent utilizes a portfolio of natural gas storage assets, contracted supply from all of the major producing regions, as well as contracted storage and transportation capacity across the Gulf Coast, Eastern, Midwestern and Western sections of the United States and Canada to provide these services to its customers, consisting primarily of electric and natural gas utilities, power generators and large industrial customers. Sequent s logistical expertise enables it to provide its customers with natural gas from the major producing regions and market hubs in the United States and Canada and meet its delivery requirements and customer obligations at competitive prices by leveraging its portfolio of natural gas storage assets and contracted natural gas supply, transportation and storage capacity.

Sequent s portfolio of storage and transportation capacity also enables it to generate additional operating margin by optimizing the contracted assets through the application of its wholesale market knowledge and risk management skills as the opportunities arise in the Gulf Coast, Eastern, Midwestern and Western sections of the United States and in Canada. These asset optimization opportunities focus on capturing the value from idle or underutilized assets, typically by participating in transactions to take advantage of volatility in pricing differences between varying geographic locations and time horizons (location and seasonal spreads) within the natural gas supply, storage and transportation markets to generate earnings. Sequent seeks to mitigate the commodity price and volatility risks and protect its operating margin through a variety of risk management and economic hedging activities.

Energy Investments

The energy investments segment includes a number of businesses that are related and complementary to AGL Resources primary business. The most significant of these businesses is our natural gas storage business, which develops, acquires and operates high-deliverability salt-dome caverns and other storage assets in the Gulf Coast region of the United States.

Jefferson Island Storage & Hub, LLC operates a salt-dome storage and hub facility in Louisiana, approximately eight miles from the Henry Hub, which is the largest centralized point for natural gas spot and futures trading in the United States. Jefferson Island currently consists of two salt-dome storage caverns with 7.5 billion cubic feet, or Bcf, of working gas capacity, 0.7 Bcf per day of withdrawal capacity and 0.4 Bcf per day of injection capacity. Jefferson Island provides storage and hub services through its direct connection to the Henry Hub and its interconnections with eight pipelines in the area.

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Jefferson Island is in the process of seeking approval to add two caverns to the facility, which would expand the total working gas capacity at Jefferson Island from approximately 7.5 Bcf to 19.5 Bcf of working gas capacity. We currently expect to obtain approval for the expansion during the second half of 2011.

Golden Triangle Storage, Inc., a new salt-dome storage facility in the Gulf Coast region of the United States, currently consists of two caverns with an initial 12 Bcf of working natural gas capacity and total cavern capacity of 18 Bcf. The first cavern, with 6 Bcf of working capacity, began commercial service in September 2010. The second cavern, with an expected 6 Bcf of working capacity, is expected to be in service in mid-2012. Golden Triangle Storage currently has 2 Bcf of the first cavern under firm subscription, which represents approximately 33% of the cavern s current working natural gas capacity. The facility is connected to three interstate and three intrastate pipelines.

Corporate

The corporate segment includes AGL Resources non-operating business units, principally AGL Services Company and AGL Capital. AGL Services Company is a service company that provides certain centralized shared services to AGL Resources various operations. AGL Capital provides for AGL Resources ongoing financing needs through a commercial paper program, the issuance of various debt and hybrid securities and other financing arrangements. The corporate segment also includes intercompany eliminations for transactions among AGL Resources various operations.

The address of AGL Resources principal executive offices is Ten Peachtree Place NE, Atlanta, Georgia 30309, and its telephone number is (404) 584-4000. AGL Capital s principal address is 2325-B Renaissance Drive, Las Vegas, Nevada 89119, and its telephone number is (702) 967-2442.

Proposed Merger with Nicor

In December 2010, AGL Resources entered into a merger agreement with Nicor Inc., or Nicor. Nicor is a holding company whose primary business is natural gas distribution. Nicor s major subsidiaries include Northern Illinois Gas Company, doing business as Nicor Gas Company, one of the nation s largest distributors of natural gas, and Tropical Shipping, a transporter of containerized freight in the Bahamas and the Caribbean region. Nicor also owns several energy-related ventures which: provide energy-related products and services to retail markets; provide wholesale natural gas marketing services; and develop natural gas storage facilities, including Central Valley Gas Storage, a depleted reservoir storage facility in north-central California. Nicor Gas serves approximately 2.2 million customers in the northern third of Illinois, excluding the city of Chicago.

The merger agreement provides that each share of Nicor common stock outstanding at the effective time of the merger, other than shares to be cancelled and shares held by dissenting Nicor shareholders, will be converted into the right to receive consideration consisting of $21.20 in cash and 0.8382 shares of AGL Resources common stock, subject to adjustment in certain circumstances.

The completion of the proposed merger is subject to various customary conditions, including, among others (1) shareholder approval by both companies, (2) expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and (3) receipt of all required regulatory approvals from, among others, the Illinois Commerce Commission.

The merger agreement contains certain termination rights for both AGL Resources and Nicor, and further provides for the payment of fees and expenses upon termination under specified circumstances. The proposed merger is currently expected to be completed in the second half of 2011.

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THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the senior notes, see Description of the Senior Notes in this prospectus supplement.

Issuer	AGL Capital Corporation.
Guarantor	AGL Resources Inc., but not any of its subsidiaries, will fully and unconditionally guarantee the payment of the senior notes.
Securities	5.875% Senior Notes due 2041.
Aggregate Principal Amount	$500,000,000.
Interest	5.875% per year accruing from March 21, 2011.
Maturity Date	March 15, 2041.
Interest Payment Dates	March 15 and September 15 of each year, beginning September 15, 2011.
Use of Proceeds	We expect the net proceeds from the sale of the senior notes will be used to: (1) repay a portion of our outstanding commercial paper, some of which was issued to repay our 7.125% senior notes that matured in January 2011 and other short-term indebtedness incurred to repay those notes; (2) partially pay the cash consideration and expenses in connection with the proposed Nicor merger if that merger is consummated; and (3) for general corporate purposes.
Record Dates	March 1 and September 1 of each year.
Interest Calculations	Based on a 360-day year of twelve 30-day months.
Ranking	The senior notes will rank equally in right of payment with each other and AGL Capital s other unsecured and unsubordinated obligations outstanding from time to time. AGL Resources guarantee will similarly be an unsecured and unsubordinated obligation of AGL Resources.
Sinking Fund	None.
Form and Denomination	

The senior notes initially will be issued in book-entry form and will be represented by one or more registered senior notes in global form deposited with or on behalf of, and registered in the name of, a nominee of The Depository Trust Company. The senior notes will be initially issued in denominations of $2,000 and integral multiples of $1,000 in excess thereof.

Redemption The senior notes may be redeemed, in whole or in part, at our option, at any time, at the redemption prices described beginning on page S-13.

Issuance of Additional Notes We may, without the consent of the holders of the senior notes, increase the principal amount of the senior notes by issuing additional senior notes in the future on the same terms and conditions, except for any differences in the issue price and interest accrued prior to the issue date of the additional senior notes, and with the same CUSIP number as the senior notes offered hereby. The senior notes offered by this prospectus supplement and any additional senior notes would rank equally and ratably and would be treated as a single class for all purposes under the Indenture. No additional senior notes may be issued if any event of default has occurred with respect to the senior notes.

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SUMMARY AGL RESOURCES HISTORICAL

AND UNAUDITED PRO FORMA FINANCIAL INFORMATION

The summary historical financial and other data about AGL Resources set forth in the table below is derived from AGL Resources audited financial statements. You should read the historical data in conjunction with AGL Resources consolidated financial statements and related notes that have been incorporated by reference in this prospectus supplement and the accompanying prospectus.

The summary unaudited pro forma financial data as of and for the year ended December 31, 2010 is derived from the unaudited pro forma condensed combined financial information incorporated by reference in this prospectus supplement and the accompanying prospectus. The unaudited pro forma income statement data gives effect to AGL Resources proposed merger with Nicor as if it were completed on January 1, 2010. The unaudited pro forma statement of financial position data gives effect to the merger as if it were completed on December 31, 2010.

The historical consolidated financial information has been adjusted in the unaudited pro forma financial data to give effect to pro forma events that are: (1) directly attributable to the merger; (2) factually supportable; and (3) with respect to the unaudited pro forma income statement data, expected to have a continuing impact on the combined results of AGL Resources and Nicor. As such, the impact from merger-related expenses is not included in the accompanying unaudited pro forma income statement data. However, the impact of these expenses is reflected in the pro forma statement of financial position data as a decrease to retained earnings. In addition, the unaudited pro forma financial data does not reflect any cost savings (or associated costs to achieve such savings) from operating efficiencies, synergies or other restructuring that could result from the merger. Further, the unaudited pro forma financial data does not reflect the effect of any regulatory actions that may impact the unaudited pro forma financial data when the merger is completed.

Completion of the proposed merger is subject to certain conditions, and there can be no guarantee that it will actually be completed. You should read the summary unaudited pro forma financial data in conjunction with the unaudited pro forma condensed combined financial information incorporated by reference in this prospectus supplement and the accompanying prospectus. The unaudited pro forma financial data have been presented for illustrative and informational purposes only and are not necessarily indicative of results of operations and financial position that would have been achieved had the pro forma events taken place on the dates indicated, or the future consolidated results of operations or financial position of the combined company. In addition, the unaudited pro forma financial data is subject to certain assumptions and estimates underlying the pro forma adjustments, as described in the notes accompanying the unaudited pro forma condensed combined financial information incorporated by reference herein. Since the unaudited pro forma financial data has been prepared based on preliminary estimates, the final amounts recorded at the date of the proposed merger may differ materially from the information presented. These estimates are subject to change pending further review of the assets acquired and liabilities assumed.

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(Dollars in millions, except per share data)	Year Ended December 31,			
	2010 Pro Forma (Unaudited)	2010 Historical	2009	2008
Income Statement Data:				
Operating revenues	$ 5,083	$ 2,373	$ 2,317	$ 2,800
Operating expenses	4,343	1,873	1,841	2,322
Operating income	740	500	476	478
Other (expense) income	8	(1)	9	6
Interest expenses	(192)	(109)	(101)	(115)
Earnings before income taxes	556	390	384	369
Income tax expenses	194	140	135	132
Net income	362	250	249	237
Less net income attributable to noncontrolling interest	16	16	27	20
Net income attributable to AGL Resources Inc.	$ 346	$ 234	$ 222	$ 217
Basic earnings per common share attributable to AGL Resources Inc.	$ 2.98	$ 3.02	$ 2.89	$ 2.85
Diluted earnings per common share attributable to AGL Resources Inc.	$ 2.97	$ 3.00	$ 2.88	$ 2.84
Weighted average number of common shares outstanding:				
Basic	116.0	77.4	76.8	76.3
Diluted	116.4	77.8	77.1	76.6

(Dollars in millions) **As of December 31,**

&nbtom">

Noncash investing and financing activities affecting cash flows:			
Deemed dividend to preferred shareholders	(1,576,454)		
Dividend to preferred shareholders		(140,890)	(86,400)
Common stock issued in business acquisition		2,000,000	
Value of warrants issued to placement agents		$ 114,191	
Redemption of common stock	(67,841)		

See notes to consolidated financial statements.

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HEALTH FITNESS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - We provide fitness and health management services and programs to corporations, hospitals, communities and universities located in the United States and Canada. Fitness and health management services include the development, marketing and management of corporate, hospital, community and university based fitness centers, worksite health promotion, injury prevention and work-injury management consulting, and on-site physical therapy. Programs include fitness and health services for individual customers, including health risk assessments, biometric screenings, nutrition and weight loss programs, personal training, smoking cessation, massage therapy, back care and ergonomic injury prevention.

Segment Reporting - Effective with the fourth quarter of 2006, we made a decision to move to segment reporting based upon the evolution of our Health Management business model, and our belief that the future financial results for our Health Management segment may outpace the financial results of our Fitness Management segment. Another factor contributing to this decision relates to the higher level of resources we expect to invest in order to maximize the future growth opportunities we believe exists in our Health Management segment. As a result of these factors, we are now following FASB Statement No. 131, *Disclosure about Segments of an Enterprise and Related Information* (SFAS 131), for the two segments of our business: Fitness Management and Health Management.

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

Cash - We maintain cash balances at several financial institutions, and at times, such balances exceed insured limits. We have not experienced any losses in such accounts and we believe we are not exposed to any significant credit risk on cash. At December 31, 2006 and 2005, we had cash of approximately $36,900 and $24,500 (U.S. Dollars) in a Canadian bank account.

Trade and Other Accounts Receivable - Trade and other accounts receivable represent amounts due from companies and individuals for services and products. We grant credit to customers in the ordinary course of business, but generally do not require collateral or any other security to support amounts due. Management performs ongoing credit evaluations of customers. Accounts receivable from sales of services are typically due from customers within 30 to 90 days. Accounts outstanding longer than contractual payment terms are considered past due. We determine our allowance for discounts and doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, the customer s current ability to pay its obligation to us, and the condition of the general economy and the industry as a whole. We write off accounts receivable when they become uncollectible, and payments subsequently received on such receivable are credited to the allowance. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers and their geographic dispersion. We had bad debt expense of $104,000, $3,870 and $104,961 for the periods ended December 31, 2006, 2005 and 2004.

Property and Equipment - Property and equipment are stated at cost. Depreciation and amortization are computed using both straight-line and accelerated methods over the useful lives of the assets.

Software Development Costs - Software development costs are accounted for in accordance with Statement SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed. Accordingly, software development costs incurred subsequent to the determination of technological feasibility and marketability of a software product are capitalized. Capitalization of costs ceases and amortization of capitalized software development costs commences when the products are

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HEALTH FITNESS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

available for general release. Amortization is determined on a product by product basis using the greater of a ratio of current product revenues to projected current and future product revenues or an amount calculated using the straight-line method over the estimated economic life of the product, which is generally three to five years.

Capitalized software development costs are stated at the lower of amortized cost or net realizable value. Recoverability of these capitalized costs is determined by comparing the forecasted future revenues from the related products, based on management s best estimates using appropriate assumptions and projections at the time, to the carrying amount of the capitalized software development costs. If the carrying value is determined not to be recoverable from future revenues, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the future revenues.

During 2006, we capitalized $267,000 of software development costs related to enhancements we made to our eHealth platform, a system we acquired through our acquisition of HealthCalc. Capitalized software development costs are captured within Software Technology. These software development costs will be amortized over the remaining economic life of the eHealth platform, or five years. We expect to recover our capitalized software development costs due to the growth of our Health Management segment.

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 tested for impairment on an annual basis or when factors indicating impairment are present. Projected discounted cash flows are used in assessing these assets. We elected to complete the annual impairment test of goodwill on December 31 each year and determined that our goodwill relates to two reporting units for purposes of impairment testing. The Company determined that there was no impairment of goodwill at December 31, 2006, 2005, and 2004.

Intangible Assets - Our intangible assets include customer contracts, trademarks and tradenames, software and other intangible assets, all of which are amortized on a straight-line basis. Customer contracts represent the fair value assigned to acquired customer contracts, which are amortized over the remaining life of the contracts, approximately 13-23 months. Trademarks and tradenames represent the value assigned to an acquired trademarks and tradenames, and are amortized over a period of five years. Software represents the value assigned to an acquired web-based software program and is amortized over a period of five years. Other intangible assets include the value assigned to acquired customer lists, which is amortized over a period of six years, as well as deferred financing costs, which are amortized over the term of the related credit agreement. Amortization expense for intangible assets totaled $738,803, $817,210, and $955,422 for the twelve months ended December 31, 2006, 2005, and 2004.

Expected future amortization of intangible assets is as follows:

Years ending December 31	
2007	$ 580,171
2008	570,769
2009	504,785
2010	504,785
Thereafter	107,402

Revenue Recognition Revenue is recognized at the time the service is provided to the customer. We determine our allowance for discounts by considering historical discount history and current payment practices of our customers. For annual contracts, monthly amounts are recognized ratably over the term of the contract. Certain services provided to the customer may vary on a periodic basis and are invoiced to the customer in arrears. The revenues relating to theses services are estimated in the month that the service is

HEALTH FITNESS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

performed. Accounts receivable related to estimated revenues were $1,644,211 and $1,283,979 at December 31, 2006 and 2005.

We also provide services to companies located in Canada. Revenue recognized from our Canadian customers totaled approximately $259,300, $277,600 and $253,200 for the periods ended December 31, 2006, 2005 and 2004. Although we invoice these customers in their local currency, we do not believe there is a risk of material loss due to foreign currency translation.

Amounts received from customers in advance of providing contracted services are treated as deferred revenue and recognized when the services are provided. Accounts receivable relating to deferred revenue were $1,663,121 and $1,868,446 at December 31, 2006 and 2005.

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

Advertising The Company expenses advertising costs as they are incurred. Advertising expense for the periods ended December 31, 2006, 2005 and 2004 was $159,646, $119,364 and $118,074.

Comprehensive Income Comprehensive income is net earnings plus certain other items that are recorded directly to stockholders equity. Our 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 applicable to common shareholders by the number of basic weighted average common shares outstanding. Diluted net earnings per share is computed by dividing net earnings applicable to common shareholders, plus dividends to preferred shareholders (net earnings), less the non-cash benefit related to a change in fair value of warrants by the number of diluted weighted average common shares outstanding, and common share equivalents relating to stock options, stock warrants and stock warrants, if dilutive. Refer to Exhibit 11.0 attached hereto for a detail computation of earnings per share.

Common stock options and warrants to purchase 2,393,681, 517,163 and 400,100 shares of common stock with weighted average exercise prices of $2.51, $2.78 and $2.54 were excluded from the 2006, 2005 and 2004 diluted computation because their exercise price exceeded the average trading price of our common stock during each of the periods.

Stock-Based Compensation We maintain a stock option plan for the benefit of certain eligible employees and directors of the Company. Commencing January 1, 2006, we adopted Statement of Financial Accounting Standard No. 123R, Share Based Payment (SFAS 123R), using the modified prospective method of adoption, which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values over the requisite service period. The compensation cost we record for these awards is based on their fair value on the date of grant. The Company continues to use the Black Scholes option-pricing model as its method for valuing stock options. The key assumptions for this valuation method include the expected term of the option, stock price volatility, risk-free interest rate and dividend yield. Many of these assumptions are judgmental and highly sensitive in the determination of compensation expense. Further information on our share-based payments can be found in Note 9 in the Notes to the Consolidated Financial Statements under Item 8.

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Fair Values of Financial Instruments Due to their short-term nature, the carrying value of our 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.

Valuation of Derivative Instruments In accordance with the interpretive guidance in EITF Issue No. 05-4, The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock, we valued warrants we issued in November 2005 in our financing transaction as a derivative liability. We were required to make certain periodic assumptions and estimates to value the derivative liability. Factors affecting the amount of this liability include changes in our stock price, the computed volatility of our stock price and other assumptions. The change in value is reflected in our statements of operations as non-cash income or expense, and the changes in the carrying value of derivatives can have a material impact on our financial statements.

Income Taxes The Company records income taxes in accordance with the liability method of accounting. Deferred income taxes are provided for temporary differences between the financial reporting and tax basis of assets and liabilities and federal operating loss carryforwards. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment. We do not record a tax liability or benefit in connection with the change in fair value of certain of our warrants. Income taxes are calculated based on management s estimate of the Company s effective tax rate, which takes into consideration a federal tax rate of 34% and an effective state tax rate of 6%.

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.

2. FINANCING

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

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

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the registration statement. On June 15, 2006, we entered into an agreement with the accredited investors to amend the Registration Rights Agreement to cap the amount of liquidated damages we could pay at 9% of the aggregate purchase price paid by each accredited investor.

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

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

3. REPURCHASE OF EQUITY SECURITIES

On November 15, 2005, using part of the proceeds from our PIPE Transaction, we redeemed all of the outstanding shares of our Series A Convertible Preferred Stock sold to Bayview Capital Partners LP (Bayview), which were convertible into 2,222,210 shares of common stock, and warrants to purchase 1,213,032 shares of common stock if exercised for cash, or 916,458 shares of common stock if exercised on a cash-less basis. The total cash we used to make this repurchase was approximately $5.1 million. At December 31, 2005, Bayview held warrants to purchase an additional 62,431 shares of common stock at exercise prices ranging from $2.24 to $2.70 per share, which were obtained in connection with anti-dilution rights. We did not repurchase these shares as they were out-of-the-money.

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4. BUSINESS ACQUISITION

On December 23, 2005, using substantially all of the remaining proceeds from our PIPE Transaction, we acquired all of the capital stock of HealthCalc. Net, Inc, a leading provider of web-based fitness, health management and wellness programs. We purchased HealthCalc because we believe their proven technology platform will play a very important role in the overall growth strategy related to the corporate health management area of our business. We paid $3.9 million in cash and issued $2 million in common stock, representing 847,281 shares, to HealthCalc s shareholders.

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

Cash price paid	$ 3,934,108
Common stock issued	2,000,000
Accrued acquisition earnout	1,475,000
Acquisition costs	632,334
Cash acquired	(107,187)
Liabilities assumed	159,277
Total purchase price	$ 8,093,532

Purchase Price Allocation	
Accounts receivable	$ 136,978
Property and equipment	55,587
Software	1,762,000
Customer contracts	85,000
Trademark/Tradenames	136,000
Other intangibles (customer lists)	431,000
Excess of cost over assets acquired (goodwill)	5,486,967
	$ 8,093,532

At December 31, 2006, we recorded a liability of $1,475,000 in favor of the former shareholders of HealthCalc, with the offset reflected as an increase to goodwill. In accordance with the Stock Purchase Agreement executed in this transaction, we agreed to pay the shareholders of HealthCalc, in cash, stock or a combination thereof, a contingent earnout payment based upon the achievement of specific 2006 revenue objectives. On March 27, 2007, our Board of Directors determined that this earnout payment would be made by a cash payment of $737,500 and the issuance of 262,590 shares of common stock, which was determined using an average closing share price of $2.81 for the twenty-one trading days preceding the date of payment. We made the cash payment on March 28, 2007 and issued the common stock effective on March 27, 2007.

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The following unaudited pro forma condensed consolidated results of operations have been prepared as if the acquisition of HealthCalc had occurred as of January 1, 2004:

	Years Ended December 31	
	2005	2004
Net revenues	$56,574,309	$54,084,358
Net earnings	1,687,863	1,345,796
Net earnings to common shareholders	1,546,973	1,259,396
Net earnings per common share:		
Basic	$ 0.11	$ 0.09
Diluted	$ 0.10	$ 0.08
Weighted average common shares outstanding		
Basic	13,607,113	13,350,626
Diluted	17,756,025	16,998,298

The unaudited pro forma condensed consolidated results of operations are not necessarily indicative of results that would have occurred had the acquisition occurred as of January 1, 2004, nor are they necessarily indicative of the results that may occur in the future.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	Useful Life	2006	2005
Leasehold improvements	Term of lease	$ 11,757	$ 11,757
Office equipment	3-7 years	1,496,302	1,243,844
Software	3 years	235,371	218,295
Health care equipment	1-5 years	772,231	453,583
		2,515,661	1,927,479
Less accumulated depreciation and amortization		1,747,986	1,579,659
		$ 767,675	$ 347,820

6. LONG-TERM OBLIGATIONS

Our primary source of liquidity and working capital is provided by a $7,500,000 Credit Agreement with Wells Fargo Bank, N.A. (the Wells Loan). At our option, the Wells Loan bears interest at prime, or the one-month LIBOR plus a margin of 2.25% to 2.75% based upon our Senior Leverage Ratio (effective rate of 8.25% and 7.25% at December 31, 2006 and 2005). The availability of the Wells Loan decreases $250,000 on the last day of each calendar quarter, beginning September 30, 2003, and matures on June 30, 2008, as amended. Working capital advances from the Wells Loan are based upon a percentage of our eligible accounts receivable, less any amounts previously drawn. The facility provided maximum borrowing capacity of $4,000,000 and $5,000,000 at December 31, 2006 and 2005, which was available for drawing on such respective dates. All borrowings are collateralized by substantially all of our assets. At December 31, 2006 and 2005, we were in compliance with all of our financial covenants.

7. COMMITMENTS AND CONTINGENCIES

Leases We lease office space and equipment under various operating leases. In addition to base rental payments, these leases require us to pay a proportionate share of real estate taxes, special assessments, and

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maintenance costs. The lease for our corporate headquarters, as well as the office lease for HealthCalc, has escalating lease payments through 2007 and 2010. Costs incurred under operating leases are recorded as rent expense and totaled approximately $404,000, $302,000, and $271,000 for the years ended December 31, 2006, 2005, and 2004.

Minimum rent payments due under operating leases are as follows:

Years ending December 31:	
2007	$ 363,000
2008	177,000
2009	162,000
2010	35,000
Thereafter	

Legal Proceedings We are involved in various claims and lawsuits incident to the operation of our business. We believe that the outcome of such claims will not have a material adverse effect on our financial condition, results of operation, or cash flows.

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

8. BENEFIT PLAN

We maintain 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. We may make certain matching contributions, which were approximately $297,000, $261,000, and $277,000 for the years ended December 31, 2006, 2005, and 2004.

9. EQUITY

Stock Options We maintain a stock option plan for the benefit of certain eligible employees and our directors. We have authorized 4,000,000 shares for grant under our 2005 Stock Option Plan, and a total of 1,313,275 shares of common stock are reserved for additional grants of options at December 31, 2006. Generally, the options outstanding are granted at prices equal to the market value of our stock on the date of grant, generally vest over four years and expire over a period of six or ten years from the date of grant.

Commencing January 1, 2006, we adopted Statement of Financial Accounting Standard No. 123R, Share Based Payment (SFAS 123R), which requires all share-based payments, including grants of stock

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options, to be recognized in the income statement as an operating expense, based on their fair values over the requisite service period. Prior to 2006, the compensation cost we recorded for option awards was based on their grant date fair value as calculated for the proforma disclosures required by Statement 123.

We recorded $373,477 of stock option compensation expense for the twelve months ended December 31, 2006. We also recorded a deferred tax benefit of $149,392 for the twelve months ended December 31, 2006 in connection with recording this non-cash expense. This deferred tax benefit will be adjusted based upon the actual tax benefit realized from the exercise of the underlying stock options. The compensation expense reduced diluted earnings per share by approximately $0.01 for the twelve months ended December 31, 2006.

In 2005 and 2004, we utilized the intrinsic value method of accounting for our 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, 2005 and 2004. The following table illustrates the effect on net earnings and earnings per share if we had applied the fair value method:

	2005	2004
Net earnings applicable to common shareholders basic	$ 1,204,401	$ 1,587,620
Add: Dividends to preferred shareholders	140,890	86,400
Net earnings diluted	1,345,291	1,674,020
Less: Compensation expense determined under the fair value method, net of tax	(187,898)	(171,500)
Proforma net earnings, basic	$ 1,016,503	$ 1,416,120
Proforma net earnings, diluted	$ 1,157,393	$ 1,502,520
Net earnings per common share:		
Basic-as reported	$ 0.09	$ 0.13
Basic-proforma	$ 0.08	$ 0.11
Diluted-as reported	$ 0.08	$ 0.10
Diluted-proforma	$ 0.07	$ 0.09

As of December 31, 2006, approximately $637,000 of total unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of approximately 2.60 years.

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

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The following table summarizes information about stock options at December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life In Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.30 - $0.39	155,400	2.12	$ 0.39	114,675	$ 0.39
0.47 - 0.69	596,650	1.45	0.56	596,650	0.56
0.95 - 1.25	259,000	3.70	1.16	199,250	1.17
1.26 - 2.27	458,600	3.89	1.85	341,800	1.81
2.28 - 3.00	781,250	3.60	2.74	353,625	2.81
	2,250,900	3.00	$ 1.64	1,606,000	$ 1.39

We use the Black-Scholes option pricing model to determine the weighted average fair value of options. The fair value of options at date of grant and the assumptions utilized to determine such values are indicated in the following table:

	Fiscal Year Ending December 31,		
	2006	2005	2004
Risk-free interest rate	4.48%	2.79%	3.30%
Expected volatility	68.9%	72.4%	88.0%
Expected life (in years)	3.96	3.04	4.00
Dividend yield			

A summary of the stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2004	1,710,900	$ 0.88
Granted	320,100	1.87
Exercised	(66,100)	0.53
Forfeited	(43,350)	0.54
Outstanding at December 31, 2004	1,921,550	1.06
Granted	357,500	2.58
Exercised	(109,625)	0.39
Forfeited	(12,000)	1.94
Outstanding at December 31, 2005	2,157,425	1.34
Granted	515,500	2.43

Exercised	(253,850)		0.31
Forfeited	(168,175)		2.33
Outstanding at December 31, 2006	2,250,900	$	1.64

Stock options outstanding at December 31, 2006 have an aggregate intrinsic value of $2,373,838, and a weighted average remaining term of 3.04 years.

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	Weighted Number of Shares	Average Exercise Price
Options exercisable at December 31:		
2006	1,606,000	$ 1.39
2005	1,520,900	$ 1.18
2004	1,249,450	$ 1.05

Stock options exercisable at December 31, 2006 have an aggregate intrinsic value of $2,104,332, and a weighted average remaining term of 2.49 years.

Employee Stock Purchase Plan We maintain an Employee Stock Purchase Plan, which allows employees to purchase shares of our common stock at 95% of the fair market value. A total of 1,000,000 shares of common stock are reserved for issuance under this plan, of which 391,562 shares are unissued and remain available for issuance at December 31, 2006. There were 90,572, 89,227 and 80,454 shares issued under the plan during 2006, 2005 and 2004.

Warrants We have outstanding warrants to selling agents and investors that were issued in connection with financing transactions.

In November 2005, we repurchased a warrant issued to Bayview representing 1,210,320 shares of common stock, which were converted on a cashless basis into 916,458 shares of common stock. At various times during 2005, Bayview was issued additional warrants, in connection with anti-dilution rights, to purchase a total of 65,143 shares of common stock. These warrants have exercise prices ranging from $0.50 to $2.70 per share, and are exercisable at any time for a period of six years.

In November 2005, we issued warrants to purchase 1,530,000 shares of common stock, at an exercise price equal to $2.40 per share, to investors in our PIPE transaction, which are exercisable at any time for a period of five years. At the same time, we issued warrants to purchase 102,000 shares of common stock, at an exercise price of $2.00 per share, to placement agents, which are exercisable at any time for a period of five years.

A summary of the stock warrants activity is as follows:

	Number of Shares	Exercise Price Per Share	
Outstanding at January 1, 2004	1,460,320	$ 0.30	0.50
Exercised	(38,282)		0.30
Forfeited	(6,718)		0.30
Outstanding at December 31, 2004	1,415,320	0.30	0.50
Granted	1,697,143	0.50	2.70
Exercised	(1,086,448)	0.30	0.50
Forfeited	(331,584)	0.30	0.50
Outstanding at December 31, 2005	1,694,431	2.00	2.70
Granted			
Exercised			
Forfeited			

Outstanding at December 31, 2006	1,694,431	2.00	2.70

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	Number of Shares	Exercise Price Per Share
Warrants exercisable at December 31:		
2006	1,694,431	$ 2.00 2.70
2005	1,694,431	2.00 2.70
2004	1,415,320	0.30 - 0.50

10. INCOME TAXES

Income tax expense consists of the following:

	2006	2005	2004
Current	$ 1,435,000	$ 412,346	$ 272,828
Deferred	60,184	1,106,600	655,101
	$ 1,495,184	$ 1,518,946	$ 927,929

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:

	2006	2005	2004
Tax expense computed at statutory rates	$ 1,567,910	$ 973,800	$ 884,700
State tax benefit, net of federal effect	181,745	205,800	154,600
Nontaxable warrant expense (income)	(286,913)	215,700	
Adjustment to income tax provision accruals		110,700	(199,700)
Other	32,442	12,946	88,329
	$ 1,495,184	$ 1,518,946	$ 927,929

At December 31, 2006 and 2005, we had no remaining federal operating loss carryforwards. For 2005, 2004 federal operating loss carryforwards were used to reduce federal taxes payable by approximately $1,091,000 and $1,030,000. The components of deferred tax assets at December 31 consist of the following:

	2006	2005
Current:		
Allowances	$ 69,500	$ 8,200
Accrued employee benefits	84,000	185,300
State tax loss carryforwards	64,000	144,300
Net current asset	$ 217,500	$ 337,800
Noncurrent:		
Depreciation and amortization	295,200	$ 374,500

Accrued employee benefits	141,800	
	$ 437,000	$ 374,500

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11. ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force on Issue No. 06-3, How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (EITF 06-3). EITF 06-3 requires a company to disclose its accounting policy (i.e. gross vs. net basis) relating to the presentation of taxes within the scope of EITF 06-3. Furthermore, for taxes reported on a gross basis, an enterprise should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented. The guidance is effective for all periods beginning after December 15, 2006. We do not believe the adoption of EITF 06-3 will have a material effect on our financial position and results of operation.

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

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 does not address what to measure at fair value; instead, it addresses how to measure fair value. SFAS 157 applies (with limited exceptions) to existing standards that require assets or liabilities to be measured at fair value. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires new disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not believe the adoption of SFAS 157 will have a material effect on our financial position and results of operation.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), which became effective on January 1, 2007. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 requires an entity to evaluate the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on current year financial statements. If a misstatement is material to the current year financial statements, the prior year financial statements should also be corrected, even though such revision was, and continues to be, immaterial to the prior year financial statements. Correcting prior year financial statements for immaterial errors would not require previously filed reports to be amended. Such correction should be made in the current period filings. The adoption of SAB 108 as of December 31, 2006 did not have a material effect on our financial position and results of operation.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, the adoption of SFAS No. 159 will have on our financial statements.

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12. SIGNIFICANT CUSTOMER RELATIONSHIP

At December 31, 2006, 2005 and 2004, we had one customer relationship that provided 10.3%, 11.9% and 10.3% of our total revenue. For this customer, we provide fitness center management and employee wellness administration services for approximately 50 locations. The agreement with this customer was recently renewed and expires December 31, 2009, and will automatically renew for successive one year periods unless either party delivers written notice at least 90 days prior to termination. We believe that our relationship with this customer is good.

13. RELATED PARTY TRANSACTION

K. James Ehlen, M.D., a member of our Board of Directors, provides to us certain medical advisory services, in addition to supporting the development of our strategy for corporate health management services. For 2006, 2005, and 2004, Dr. Ehlen was paid $4,500, $66,336, and $100,000 for his services.

14. BUSINESS SEGMENTS

Effective with the fourth quarter of 2006, we organized our business into two operating segments: Fitness Management Services and Health Management Services. Within each of these business segments, we provide two types of service: (i) Staffing Services, and (ii) Program and Consulting Services. We assess and manage the performance of each business segment by reviewing internally-generated reports that detail revenue and gross profit results for each of our customer sites. This information is used to formulate plans regarding the future prospects of our business, and aids in our determination of how we will invest our resources to ensure we achieve our future revenue and profitability growth targets.

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The following table provides an analysis of business segment revenue and gross profit for each of the years ending December 31, 2006, 2005 and 2004:

	2006	2005	2004
Revenue			
Fitness Management Services			
Staffing Services	$ 39,670,546	$ 38,226,444	$ 38,446,085
Program and Consulting Services	2,574,463	2,392,272	1,678,343
	42,245,009	40,618,716	40,124,428
Health Management Services			
Staffing Services	13,669,201	12,267,973	11,478,361
Program and Consulting Services	7,664,330	2,055,516	851,879
	21,333,531	14,323,489	12,330,240
Total Revenue			
Staffing Services	53,339,747	50,494,417	49,924,446
Program and Consulting Services	10,238,793	4,447,788	2,530,222
	$ 63,578,540	$ 54,942,205	$ 52,454,668
Gross Profit			
Fitness Management Services			
Staffing Services	$ 8,861,829	$ 8,772,194	$ 8,964,117
Program and Consulting Services	1,129,585	810,401	735,487
	9,991,414	9,582,595	9,699,604
Health Management Services			
Staffing Services	3,399,875	3,499,117	3,407,956
Program and Consulting Services	4,239,295	735,462	351,657
	7,639,170	4,234,579	3,759,613
Total Gross Profit			
Staffing Services	12,261,704	12,271,311	12,372,073
Program and Consulting Services	5,368,880	1,545,863	1,087,144

	$ 17,630,584	$ 13,817,174	$ 13,459,217

We do not have any assets that are specifically related solely to either of our two business segments.

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HEALTH FITNESS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Quarter ended			
	March 31, (Restated)	June 30,	September 30,	December 31,
2006				
Revenue	$14,567,261	$15,575,130	$16,340,380	$17,095,769
Gross profit	3,604,480	4,160,014	5,278,628	4,587,462
Net earnings (loss) applicable to common shareholders	(1,013,191)	727,474	1,173,841	463,549
Net earnings (loss) per common share				
Basic	$ (0.07)	$ 0.04	$ 0.06	$ 0.02
Diluted	(0.07)	0.02	0.06	0.02
Weighted average common shares outstanding				
Basic	15,001,832	18,831,169	18,963,948	19,085,789
Diluted	15,001,832	20,310,830	19,550,662	19,823,346

	Quarter ended			
	March 31,	June 30,	September 30,	December 31,
2005				
Revenue	$13,465,101	$13,678,615	$13,464,278	$14,334,211
Gross profit	3,441,802	3,450,616	3,498,814	3,425,942
Net earnings (loss) applicable to common shareholders	627,934	498,183	506,488	(428,204)
Net earnings (loss) per common share				
Basic	$ 0.05	$ 0.04	$ 0.04	$ (0.03)
Diluted	0.04	0.03	0.03	(0.03)
Weighted average common shares outstanding				
Basic	12,619,603	12,652,370	12,836,971	13,008,291
Diluted	16,614,522	16,618,997	16,662,753	13,008,291

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HEALTH FITNESS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

16. RESTATEMENT

On November 12, 2007, subsequent to our third quarter earnings release on November 5, 2007, we determined that a $1,576,454 deemed dividend to preferred shareholders should have been reflected in our financial statements for the quarter ended March 31, 2006. The effect of this restatement results in a reduction to net earnings applicable to common shareholders in our consolidated statement of operations for the quarter ended March 31, 2006, with a corresponding increase to additional paid in capital in our consolidated balance sheet as of March 31, 2006. In Amendment No. 1 to our Original Filing, we restated our consolidated balance sheet for the quarter ended March 31, 2006 and for the year ended December 31, 2006, our consolidated statements of operations and cash flows for the quarter ended March 31, 2006 and year ended December 31, 2006, and the notes related thereto. No other quarterly reporting periods during our year ended December 31, 2006 were affected by this restatement. This restatement will result in no change to total net earnings or to total stockholders equity as of December 31, 2006 and March 31, 2006.

The $1,576,454 deemed dividend to preferred shareholders was determined in accordance with Emerging Issues Task Force (EITF) Number 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio*. This deemed dividend is a one-time, non-cash adjustment related to the automatic conversion of our Series B Preferred Stock to common stock on March 10, 2006.

The Audit Committee worked closely with our management to review the restatement and our policies and practices related to the restatement. The Audit Committee has determined that, despite this restatement, our internal controls over accounting and financial reporting are effective, and that the restatement does not relate to any misconduct on the part of management.

Following is a presentation of the effects of this restatement on our consolidated financial statements for the periods that were affected by this restatement. All other numbers reported for these periods not affected by this restatement are the same as originally reported.

The following table presents the effect of the restatement on our consolidated balance sheet for the quarter ended March 31, 2006:

	As Reported	Restatement	As Restated
STOCKHOLDERS EQUITY			
Common stock, $0.01 par value	$ 189,304		$ 189,304
Additional paid-in capital	24,266,420	1,576,454	25,842,874
Accumulated comprehensive income	(898)		(898)
Accumulated deficit	(4,713,558)	(1,576,454)	(6,290,012)
	$19,741,268		$19,741,268

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HEALTH FITNESS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

The following table presents the effect of the restatement on our consolidated statement of operations for the quarter ended March 31, 2006:

	As Reported	Restatement	As Restated
NET EARNINGS	$ 659,673		$ 659,673
Deemed dividend to preferred shareholders		1,576,454	1,576,454
Dividend to preferred shareholders	96,410		96,410
NET EARNINGS (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$ 563,263	$(1,576,454)	$ (1,013,191)
NET EARNINGS (LOSS) PER COMMON SHARE:			
Basic	$ 0.04		$ (0.07)
Diluted	0.01		(0.07)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	15,001,832		15,001,832
Diluted	19,666,941		15,001,832

The following table presents the effect of the restatement on our consolidated statement of cash flows for the quarter ended March 31, 2006:

	As Reported	Restatement	As Restated
Noncash investing and financing activities affecting cash flows:			
Deemed to preferred shareholders		$(1,576,454)	$(1,576,454)

The following table presents the effect of the restatement on our consolidated balance sheet for the year ended December 31, 2006:

	As Reported	Restatement	As Restated
STOCKHOLDERS EQUITY			
Common stock, $0.01 par value	$ 192,202		$ 192,202
Additional paid-in capital	25,989,447	1,576,454	27,565,901
Accumulated comprehensive income	(35,186)		(35,186)
Accumulated deficit	(2,348,695)	(1,576,454)	(3,925,149)
	$23,797,768		$23,797,768

The following table presents the effect of the Restatement on our consolidated statement of operations for the year ended December 31, 2006:

	As Reported	Restatement	As Restated
NET EARNINGS	$ 3,024,537		$ 3,024,537
Deemed dividend to preferred shareholders		1,576,454	1,576,454
Dividend to preferred shareholders	96,410		96,410
NET EARNINGS APPLICABLE TO COMMON SHAREHOLDERS	$ 2,928,127	$(1,576,454)	$ 1,351,673
NET EARNINGS PER COMMON SHARE:			
Basic	$ 0.16		$ 0.07
Diluted	0.11		0.03
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	18,023,298		18,023,298
Diluted	19,736,785		18,772,675

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HEALTH FITNESS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

The following table presents the effect of the restatement on our consolidated statement of cash flows for the year ended December 31, 2006:

	As Reported	Restatement	As Restated
Noncash investing and financing activities affecting cash flows:			
Deemed to preferred shareholders		$(1,576,454)	$(1,576,454)

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HEALTH FITNESS CORPORATION
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other accounts Describe	Deductions Describe	Balance at End of Period
Trade and other accounts receivable allowances:					
Year ended December 31, 2006	$200,700	$104,000		$(21,600)(a)	$283,100
Year ended December 31, 2005	$210,700	$ 12,400		$(22,400)(a)	$200,700
Year ended December 31, 2004	$131,000	$ 79,700		$ (a)	$210,700

(a) Accounts receivable written off as uncollectible

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(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/A:

Report of Grant Thornton LLP on Consolidated Financial Statements and Financial Statement Schedule as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Operations for each of the three years in the period ended December 31, 2006

Consolidated Statements of Stockholders Equity for each of the three years in the period ended December 31, 2006

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2006

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/A immediately following the signature page of this Form 10-K/A

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 20, 2007

HEALTH FITNESS CORPORATION

By /s/ Gregg O. Lehman, Ph.D.	By /s/ Wesley W. Winnekins
Gregg O. Lehman, Ph.D. Chief Executive Officer	Wesley W. Winnekins Chief Financial Officer

In accordance with the requirement of the Securities Exchange Act of 1934, this Annual Report on Form 10-K/A has been signed by the following persons in the capacities and on the dates indicated.

Signatures	Title	
/s/ Gregg O. Lehman, Ph.D. Gregg O. Lehman, Ph.D.	Chief Executive Officer, President (principal executive officer) and Director	November 20, 2007
/s/ Wesley W. Winnekins Wesley W. Winnekins	Chief Financial Officer (principal financial and accounting officer)	November 20, 2007
/s/ Mark W. Sheffert* Mark W. Sheffert	Chairman	November 20, 2007
/s/ Jerry V. Noyce* Jerry V. Noyce	Vice Chairman and Director	November 20, 2007
/s/ K. James Ehlen, M.D.* K. James Ehlen, M.D.	Director	November 20, 2007

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Signatures	Title	
/s/ Robert J. Marzec*	Director	November 20, 2007
Robert J. Marzec		
/s/ John C. Penn*	Director	November 20, 2007
John C. Penn		
/s/ Linda Hall Whitman, Ph.D.*	Director	November 20, 2007
Linda Hall Whitman, Ph.D.		
/s/ Rodney A. Young*	Director	November 20, 2007
Rodney A. Young		
	Director	
Curtis M. Selquist		
	Director	
David F. Durenburger		

*By: /s/ Wesley W. Winnekins

Wesley W. Winnekins
As Attorney-in-Fact pursuant to
Powers of Attorney previously filed.

Date: November 20, 2007

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EXHIBIT INDEX
HEALTH FITNESS CORPORATION
FORM 10-K/A

Exhibit No.	Description
3.1	Articles of Incorporation, as amended on September 20, 2004 incorporated by reference to Exhibit 3.1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004
3.2	Certificate of Designation, Preferences and Rights of Series A Convertible Preferred Stock incorporated by reference to Exhibit 3.2 to our Registration Statement on Form S-1 (No. 333-131045) filed January 13, 2006
3.3	Certificate of Designation, Preferences and Rights of Series B Convertible Preferred Stock incorporated by reference to Exhibit 4.1 to our Form 8-K filed November 16, 2005
3.4	Restated By-Laws of the Company incorporated by reference to the Company s Registration Statement on Form SB-2, File No. 33-83784C
4.1	Specimen of Common Stock Certificate incorporated by reference to the Company s Registration Statement on Form SB-2, File 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 Exhibit 10.8 to our Annual Report on Form 10-KSB for the year ended December 31, 1996, File No. 000-25064
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 Exhibit 10.12 to our Form 10-K for the year ended December 31, 2000, File No. 000-25064
10.3	Second Amendment, dated June 12, 2002, to Standard Office Lease Agreement dated as of June 13, 1996- incorporated by reference to Exhibit 10.13 to our Form 10-Q for the quarter ended June 30, 2002
10.4	Company s 2005 Stock Option Plan incorporated by reference to Exhibit 10.1 to our report on Form 8-K filed June 14, 2005 (1)
10.5	Forms of Incentive Stock Option Agreement (1)
10.6	Form of Non-Qualified Stock Option Agreement under the 2005 Stock Option Plan incorporated by reference to Exhibit 10.2 to our report on Form 8-K dated June 14, 2005 (1)
10.7	Employment Agreement dated November 30, 2000 between the Company and Jerry V. Noyce incorporated by reference to Exhibit 10.9 to our Form 10-K for the fiscal year ended December 31, 2000, File No. 000-25064 (1)
10.8	Amendment, dated December 1, 2006, to Employment Agreement dated November 30, 2000 between the Company and Jerry V. Noyce incorporated by reference to Exhibit 99.1 to our report on Form 8-K filed December 4, 2006 (1)

10.9	Employment Agreement dated February 9, 2001 between the Company and Wesley W. Winnekins incorporated by reference to Exhibit 10.11 to our Form 10-K for the fiscal year ended December 31, 2000, File No. 000-25064 (1)
10.10	Amendment, dated as of December 21, 2006, to Employment Agreement dated February 9, 2001 between the Company and Wesley W. Winnekins (1) incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K filed March 30, 2007
10.11	Employment Agreement dated March 1, 2003 between the Company and Jeanne Crawford incorporated by reference to Exhibit 10.9 to our Form 10-K for the fiscal year ended December 31, 2002 (1)

Exhibit No.	Description
10.12	Amendment, dated as of December 21, 2006, to Employment Agreement dated March 1, 2003 between the Company and Jeanne Crawford (1) incorporated by reference to Exhibit 10.12 to our Annual Report on Form 10-K filed March 30, 2007
10.13	Amended and Restated Employment Agreement dated March 25, 2003 between the Company and James A. Narum incorporated by reference to Exhibit 10.7 to our Annual Report on Form 10-K for the year ended December 31, 2002 (1)
10.14	Employment Agreement dated December 8, 2003 between the Company and Brian Gagne incorporated by reference to Exhibit 10.10 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (1)
10.15	Amendment, dated as of December 21, 2006, to Employment Agreement dated December 8, 2003 between the Company and Brian Gagne (1) incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K filed March 30, 2007
10.16	Employment Agreement dated December 22, 2003 between the Company and Michael Seethaler incorporated by reference to Exhibit 10.11 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (1)
10.17	Amendment, dated as of December 21, 2006, to Employment Agreement dated December 22, 2003 between the Company and Michael Seethaler (1) incorporated by reference to Exhibit 10.17 to our Annual Report on Form 10-K filed March 30, 2007
10.18	Employment Agreement dated August 13, 2001 between the Company and Dave Hurt incorporated by reference to Exhibit 10.12 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (1)
10.19	Employment Agreement dated December 8, 2003 between the Company and Katherine Hamlin incorporated by reference to Exhibit 10.13 to our Form 10-K for the fiscal year ended December 31, 2005 (1)
10.20	Amendment, dated as of December 21, 2006, to Employment Agreement dated December 8, 2003 between the Company and Katherine Hamlin (1) incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K filed March 30, 2007
10.21	Employment Agreement dated December 23, 2005 between the Company and John F. Ellis incorporated by reference to Exhibit 10.16 Form 10-K for the fiscal year ended December 31, 2005 (1)
10.22	Amendment, dated as of December 21, 2006, to Employment Agreement dated December 23, 2005 between the Company and John F. Ellis (1) incorporated by reference to Exhibit 10.22 to our Annual Report on Form 10-K filed March 30, 2007
10.23	Employment Agreement dated December 23, 2005 between the Company and Peter A. Egan incorporated by reference to Exhibit 10.17 Form 10-K for the fiscal year ended December 31, 2005 (1)

10.24	Amendment, dated as of December 21, 2006, to Employment Agreement dated December 23, 2005 between the Company and Peter A. Egan (1) incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K filed March 30, 2007
10.25	Employment Agreement dated December 1, 2006 between the Company and Gregg O. Lehman, Ph.D. incorporated by reference to Exhibit 99.2 to our report on Form 8-K for the fiscal year ended December 4, 2006 (1)
10.26	Restricted Stock Agreement, dated as of January 1, 2007, between the Company and Gregg O. Lehman, Ph.D. (1) incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K filed March 30, 2007
10.27	Credit Agreement, dated August 22, 2003, between the Company and Wells Fargo Bank, National Association incorporated by reference to Exhibit 10.11 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003

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Exhibit No.	Description
10.28	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 Exhibit 10.14 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003
10.29	Second Amendment dated May 14, 2004 to Credit Agreement and Waiver of Defaults, dated August 22, 2003, between the Company and Wells Fargo Bank, N.A. incorporated by reference to Exhibit 10.16 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004
10.30	Third Amendment to Credit Agreement and Consent dated December 29, 2004 to Credit Agreement dated August 22, 2003, between the Company and Wells Fargo Bank, N.A. incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004
10.31	Securities Purchase Agreement dated November 14, 2005 incorporated by reference to Exhibit 10.1 to our report on Form 8-K filed November 16, 2005
10.32	Registration Rights Agreement dated November 14, 2005 incorporated by reference to Exhibit 10.2 to our report on Form 8-K filed November 16, 2005
10.33	Form of Warrant issued pursuant to the Securities Purchase Agreement dated November 14, 2005 incorporated by reference to Exhibit 10.3 to our report on Form 8-K filed November 16, 2005
10.34	Stock Purchase Agreement dated December 23, 2005 between the Company, HealthCalc.Net, Inc., Peter A. Egan and John F. Ellis, among others incorporated by reference to Exhibit 10.1 to our report on Form 8-K filed on December 29, 2005
10.35	Escrow Agreement dated December 23, 2005 between the Company, Wells Fargo Bank, National Association, Peter A. Egan and John F. Ellis, among others incorporated by reference to Exhibit 10.2 to our report on Form 8-K filed December 29, 2005
10.36	Shareholders Agreement dated December 23, 2005 between the Company, Peter A. Egan and John F. Ellis incorporated by reference to Exhibit 10.3 to our report on Form 8-K filed December 29, 2005
10.37	Fourth Amendment dated June 6, 2006 to Credit Agreement, dated August 22, 2003, between the Company and Wells Fargo Bank, N.A. incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006
10.38	Form of Amendment No. 1 to Warrants issued November 14, 2005 incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006
10.39	Form of Amendment No. 1 to Registration Rights Agreement incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006
10.40	Director Compensation Arrangements (1) incorporated by reference to Exhibit 10.40 to our Annual Report on Form 10-K filed March 30, 2007
10.41	

	2007 Executive Bonus Plan (1) incorporated by reference to Exhibit 10.41 to our Annual Report on Form 10-K filed March 30, 2007
10.42	Compensation Arrangements for Executive Officers for Fiscal Year 2007 (1) incorporated by reference to Exhibit 10.42 to our Annual Report on Form 10-K filed March 30, 2007
10.43	Cash Incentive Plan (1) incorporated by reference to Exhibit 10.43 to our Annual Report on Form 10-K filed March 30, 2007
11.0	Statement re: Computation of Earnings per Share incorporated by reference to Exhibit 11.0 to our Annual Report on Form 10-K/A filed November 19, 2007
21.1	Subsidiaries **-** incorporated by reference to Exhibit 21.1 to our Annual Report on Form 10-K for the year ended December 31, 2004

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Exhibit No.	Description
*23.1	Consent of Independent Registered Public Accounting Firm
*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

* Filed herewith

(1) Indicates management contract or compensatory plan or arrangement