

HEARTLAND, INC.
Form 10QSB
November 20, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT

UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED SEPTEMBER 30, 2006

HEARTLAND, INC.

(Exact name of small business registrant as specified in its charter)

Maryland

000-27045

36-4286069

(State or other jurisdiction

(Commission File Number)

(I.R.S. Employer Identification Number)

of incorporation or organization))

982 Airport Road, Suite A

Destin, Florida 32541

(Address of principal executive offices) (Zip Code)

850-837-0025

Edgar Filing: HEARTLAND, INC. - Form 10QSB

(Registrant's telephone no., including area code)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Number of shares of the registrant's common stock outstanding as of November 20, 2006 was: 32,557,468

Traditional Small Business Disclosure Format: Yes No

1

HEARTLAND, INC.

FORM 10-QSB

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	3
ITEM 1. FINANCIAL STATEMENTS	3
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION	11
ITEM 3. CONTROLS AND PROCEDURES	16
PART II. OTHER INFORMATION	16
ITEM 1. - LEGAL PROCEEDINGS	16
ITEM 2. - CHANGES IN SECURITIES AND USE OF PROCEEDS	16
ITEM 3. - DEFAULTS UPON SENIOR SECURITIES	16
ITEM 4. - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	17
ITEM 5. - OTHER INFORMATION	17
ITEM 6. - EXHIBITS AND REPORTS ON FORM 8-K	17
SIGNATURES	17

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HEARTLAND, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2006 (Unaudited)	December 31, 2005 (Restated)
Current Assets:		
Cash	\$ 154,100	\$ 685,386
Accounts receivable, net of allowance for doubtful accounts of \$214,393 and \$219,663 respectively	3,410,116	4,070,243
Costs in excess of billings on uncompleted contracts	177,987	332,396
Inventories	891,165	10,291,051
Prepaid expenses and other	236,910	206,882
Total Current Assets	4,870,278	15,585,958
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$568,849 and \$929,361, respectively	951,272	3,383,552
Other Assets:		
Goodwill	1,291,390	1,429,787
Other intangible assets	17,579	259,688
Investments in joint ventures	0	401,654
Acquisition deposits	50,000	50,000
Land deposits	0	221,800
Other assets	56,316	80,430
Total Other Assets	1,415,285	2,443,359
Total Assets	\$ 7,236,835	\$ 21,412,869

See accompanying notes to consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIENCY)

	September 30, 2006 (Unaudited)	December 31, 2005 (Restated)
Current Liabilities:		
Bank lines of credit	\$0	\$ 1,351,423
Note payable land purchase	0	5,740,160
Convertible promissory notes payable	550,750	2,395,617
Current portion of notes payable	38,352	148,247
Current portion of capitalized lease obligation	0	121,934
Current portion of notes payable to related parties	69,553	66,787
Bank overdraft	100,000	0
Accounts payable	2,324,210	4,762,224
Acquisition notes payable to related parties	1,350,000	3,250,000
Obligations to related parties	0	6,508
Accrued payroll taxes	18,017	602,201
Accrued interest	273,432	669,028
Accrued expenses	187,310	483,512
Billings in excess of costs on uncompleted contracts	479,825	521,952
Customer deposits	0	12,770
Deferred income taxes	0	163,922
Total Current Liabilities	5,391,449	20,296,285
Long-term Debt:		
Notes Payable, less current portion	439,051	2,035,076
Capitalized lease obligation, less current portion	0	148,072
Payroll taxes payable	339,511	
Notes payable to related parties, less current portion	490,773	545,158
Non-controlling interest of Variable Interest Entities	0	368,215
Deferred income taxes	0	0
Total Long Term Liabilities	1,269,335	3,096,521
Shareholders Equity (Deficiency):		
Preferred stock \$0.001 par value, 5,000,000 shares authorized,		
None issued and outstanding	0	0
Common stock \$0.001 par value, 100,000,000 shares authorized,		
31,454,550 and 23,746,024 issued and outstanding, respectively	31,455	23,746
Additional paid-in-capital	13,584,385	16,053,901
Accumulated deficit	(13,039,789)	(18,057,584)
Total Shareholders Equity (Deficit)	576,051	(1,979,937)
Total Liabilities and Shareholders Equity (Deficit)	\$7,236,835	\$ 21,412,869

See accompanying notes to consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2006	2005	2006	2005
Net Revenues	\$ 4,918,882	\$ 14,265,935	\$ 13,724,153	\$ 31,905,076
Costs and Expenses:				
Cost of goods sold	4,281,242	12,589,580	11,559,934	27,906,670
General and administrative expenses	2,299,016	1,228,187	3,878,501	5,230,487
Depreciation and amortization	14,425	53,022	41,802	165,037
Total Costs and Expenses	6,594,683	13,870,789	15,480,237	33,302,194
Income (Loss) from Operations	(1,675,801)	395,146	(1,756,084)	(1,397,118)
Other Income (Expense):				
Rental income	25,248	23,551	90,309	101,653
Other income		7,593		13,581
Interest expense	(2,864)	(180,214)	(197,372)	(464,722)
Loss on disposal of equipment				
Total Other Income (Expense)	22,384	(149,070)	(107,063)	(349,488)
Net Income (Loss) from continuing operations	\$ (1,653,417)	\$ 246,076	\$ (1,863,147)	\$ (1,746,606)
Discontinued Operations:				
Loss from discontinued operations (less applicable income tax expense of \$0)			1,685	
Gain from discontinued operations (less applicable income tax expense of \$0)			6,010,811	
Gain from discontinued operations of VIEs (less applicable income tax expense of \$0)			(12,692)	
Income loss from discontinued operations of VIEs (less applicable income tax expense of \$0)			881,141	
Total Discontinued Operations			6,880,945	
Net Income (Loss)	\$ (1,653,417)	\$ 246,076	\$ 5,017,798	\$ (1,746,606)
Earnings (Loss) per Share:				
Basic	\$ (0.06)	\$ 0.01	\$ 0.20	\$ (0.09)
Weighted Average Common and Common Equivalent Shares Outstanding	25,990,530	21,569,131	25,110,513	20,531,423

See accompanying notes to consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended Sept. 30,	
	2006	2005
Reconciliation of Net Income (Loss) to Net Cash Flows Used in		
Operating Activities:		
Net income (Loss)	\$ 5,017,798	\$ (1,746,606)
Gain on discontinued operations of subsidiaries	(6,010,811)	-
Loss on discontinued operations of Variable Interest Entities	12,692	-
Depreciation and amortization	41,802	165,037
Stock-based compensation	2,091,790	1,312,476
Changes in working capital:		
Accounts receivable, trade, net	(625,627)	(990,980)
Costs in excess of billings on uncompleted contracts	154,409	(95,149)
Inventories	(472,334)	(1,085,823)
Prepaid expenses & other	69,239	50,635
Other assets	(36,020)	(56,064)
Accounts payable	560,118	610,332
Other	(1,105,521)	-
Payroll taxes payable	(166,394)	(73,441)
Interest payable	312,350	-
Other accrued liabilities	(121,828)	464,250
Billings in excess of costs on uncompleted contracts	(42,127)	(54,127)
Payment of Income Taxes		(164,318)
Customer deposits	(12,770)	99,243
Net Cash Flow Used in Operating Activities	(471,712)	(1,564,535)
Investing Activities:		
Discontinued Operating Subsidiaries cash	(516,005)	-
Discontinued Variable Interest Entities cash	(90,071)	-
Purchases of property and equipment	(8,562)	(49,533)
Repayment of advances to related parties	-	43,000
Net Cash Flows Provided by (Used in) Investing Activities	\$(614,638)	\$(6,533)

See accompanying notes to consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine Months Ended Sept. 30,	
	2006	2005
Financing Activities:		
Proceeds from issuance of common stock	\$243,283	\$ 593,825
Proceeds from issuance of convertible notes	165,850	684,150
Borrowing on bank overdraft	100,000	-
Borrowing on line of credit	9,566	251,520
Borrowing for land purchases	9,950	353,786
Short-term loan from individual		100,000
Payments on acquisition notes payable to related parties	51,619	(50,000)
Advances received from related parties		73,000
Payments on obligations to related parties	6,508	(276,089)
Repayment of short term loans from individual		(100,000)
Payment on notes payable	(31,712)	(35,137)
Payments on capital lease obligation		(85,971)
Payment of dividends		(1,760)
Net Cash Provided by Financing Activities	555,064	1,507,324
Increase in Cash	(531,286)	(63,744)
Cash, beginning of period	685,386	578,354
Cash, end of period	\$ 154,100	\$ 514,610

See accompanying notes to consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES

UNAUDITED SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended Sept. 30,	
	2006	2005
Interest paid	\$ 196,835	\$ 464,722
Non-cash activities		
Accounts receivable		
Dissolution of Subsidiaries	1,285,754	
Inventory		
Dissolution of Subsidiaries	9,872,220	
Prepaid expense		
Dissolution of Subsidiaries	34,211	
Dissolution of VIE s	5,000	
Property, Plant & Equipment, net		
Dissolution of subsidiaries	220,558	
Dissolution of VIE s	1,906,850	
Goodwill		
Dissolution of Subsidiaries	138,397	
Other Intangibles		
Dissolution of Subsidiaries	641,654	
Land Deposits		
Dissolution of Subsidiaries	221,800	
Other Assets		
Dissolution of Subsidiaries	267	
Other		
Dissolution of VIE s	59,867	
Lines of Credit		
Dissolution of Subsidiaries	(1,360,989)
Notes Payable Land Purchase		
Dissolution of Subsidiaries	(5,750,110)
Convertible Promissory Notes		
Dissolution of VIE s	(714,917)
Notes Payable		
Dissolution of Subsidiaries	(1,674,208)
Capitalized Loan Obligation		
Dissolution of Subsidiaries	(270,006)
Accounts Payable		
Dissolution of Subsidiaries	(2,944,089)
Dissolution of VIE s	(54,043)
Acquisition Notes Payable		
Elimination of Investment in Subsidiaries	(1,900,000)
Obligations to Related Parties		
Dissolution of VIE s	(78,157)
Accrued Payroll Taxes		
Dissolution of Subsidiaries	(78,279)
Accrued Interest		
Dissolution of Subsidiaries	(408,651)

See accompanying notes to consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES

UNAUDITED SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended Sept. 30,	
	2006	2005
Accrued Expenses		
Dissolution of Subsidiaries	\$(124,687)
Deferred Income Taxes		
Dissolution of Subsidiaries	(163,922)
Non-Controlling Interest		
Dissolution of VIE s	(368,215)
Common Stock		
Eliminate Investment in Subsidiaries	(1,600)
Convertible Promissory Note	1,068,700	
Accrued Interest	128,144	
Additional Paid in Capital		
Eliminate Investment in Subsidiaries	(6,303,400)
Dissolution of Subsidiaries	(2,074,903)
Dissolution of VIE Gain	882,034	
Dissolution of Investment in Subsidiaries	5,931,463	
Eliminate Investment in Subsidiaries Gain	137,500	

See accompanying notes to consolidated financial statements.

HEARTLAND, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE A CONDENSED FINANCIAL STATEMENTS

In the opinion of the Company, the accompanying Unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring accruals) which are necessary for a fair presentation of the results for periods presented. Certain information and footnote disclosures, normally included in the financial statements prepared in accordance with generally accepted accounting principles, have been condensed and/or omitted. The results of operations for the three months and nine months ended September 30, 2006 are not necessarily indicative of the results of operations for the year ended December 31, 2005. The condensed financial statements should be read in conjunction with the Company's financial statements included in its annual Form 10-KSB for the year ended December 31, 2005.

NOTE B - STOCKHOLDERS EQUITY

During the nine months ended September 30, 2006, the Company issued 586,566 shares of its common stock for cash at a price of approximately \$0.50 per share.

During the nine months ended September 30, 2006, the Company issued 3,310,325 shares of common stock for services at an average price of approximately \$0.63 per share.

During the nine months ended September 30, 2006, the Company issued 3,910,635 shares of common stock in connection with Convertible Promissory Notes.

NOTE C GOING CONCERN

As reflected in the accompanying financial statements, the Company has current liabilities of \$1,420,792 in excess of current assets resulting in negative working capital and an accumulated deficit of \$11,371,592. Management is presently seeking to raise permanent equity capital in the capital markets or some form of long-term debt instrument to eliminate the negative working capital. Additionally, the Company is seeking to acquire additional profitable companies. Failure to raise equity or secure some other form of long-term debt arrangement will cause the Company to further increase its negative working capital deficit. However, there are no assurances, that the Company will succeed in the obtaining of equity financing or some form of long-term debt instrument.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

This Quarterly Report on Form 10-QSB for the quarterly period ended September 30, 2006 contains "forward-looking" statements within the meaning of the Federal securities laws. These forward-looking statements include, among others, statements concerning the Company's expectations regarding sales trends, gross and net operating margin trends, political and economic matters, the availability of equity capital to fund the Company's capital requirements, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Quarterly Report on Form 10-QSB for the quarterly period ended September 30, 2006 are subject to risks and uncertainties that could cause actual results to differ materially from those results expressed in or implied by the statements contained herein.

The interim financial statements have been prepared by Heartland, Inc. and in the opinion of management, reflect all material adjustments which are necessary to a fair statement of results for the interim periods presented, including normal recurring adjustments. Certain information and footnote disclosures made in the most recent annual financial statements included in the Company's Form 10-KSB for the year ended December 31, 2005, have been condensed or omitted for the interim statements. It is the Company's opinion that, when the interim statements are read in conjunction with the December 31, 2005 financial statements, the disclosures are adequate to make the information presented not misleading. The results of operations for the three months ended September 30, 2006 are not necessarily indicative of the operating results for the full fiscal year.

(A) THE COMPANY

The Company was incorporated in the State of Maryland on April 6, 1999 as Origin Investment Group, Inc. (Origin). On December 27, 2001, the Company went through a reverse merger with International Wireless, Inc. Thereafter on January 2, 2002, the Company changed its name from Origin to International Wireless, Inc. On November 15, 2003, the Company went through a reverse merger with PMI Wireless, Inc. Thereafter in May 2004, the Company changed its name from International Wireless, Inc. to our current name, Heartland Inc.

The Company was originally formed as a non-diversified closed-end management investment company, as those terms are used in the Investment Company Act of 1940 (1940 Act). The Company at that time elected to be regulated as a business development company under the 1940 Act. In December 7, 2001 the Company's shareholders voted on withdrawing the Company from being regulated as a business development company and thereby no longer be subject to the 1940 Act.

Unless the context indicates otherwise, the terms Company, Corporate, Heartland, and we refer to Heartland, Inc. and its subsidiaries. Our executive offices are located at 25 Mound Park Drive, Springboro, Ohio, 45066, telephone number (763) 557-2900. Our Internet address is www.heartlandholdingsinc.com for the corporate information. Additionally, the following divisions of the company currently maintain Internet addresses: 1) Karkela www.karkela.com and 2) Mound Technologies www.moundtechnologies.com. The information contained on our web site(s) or connected to our web site is not incorporated by reference into this Annual Report on Form 10-KSB and should not be considered part of this report.

We classify our operations into four reportable segments: steel fabrication, construction and property management, manufacturing, and agriculture (currently idle but available for future use). A fifth segment called other consists of corporate functions. Sales of our segments accounted for the following approximate percentages of our consolidated sales for fiscal years 2005: Steel Fabrication, 14.78 percent; Construction and Property Management, 69.38 percent; Manufacturing 15.84 percent, Agriculture 0 percent and Other, 0 percent.

We emphasize quality and innovation in our services, products, manufacturing, and marketing. We strive to provide well-built, dependable products supported by our service network. We have committed funding for engineering and research in order to improve existing products and develop new products. Through these efforts, we seek to be responsive to trends that may affect our target markets now and in the future.

(B) BUSINESS DEVELOPMENT

From December 27, 2001 through June 2003, the Company attempted to develop its bar code technology and bring it to market. To that extent, the Company moved its operations to Woburn, Massachusetts, hired numerous computer programmers, developers and sales people in addition to support staff. Due to the Company's inability to raise sufficient capital, the Company was unable to pay current operating expenses and by June, 2003 shut down its operations entirely.

On August 29, 2003, a change in control of the Company occurred in conjunction with naming Attorney Jerry Gruenbaum of First Union Venture Group, LLC as attorney of record for the purpose of overseeing the proper disposition of the Company and its remaining assets and liabilities by any means appropriate, including settling any and all liabilities to the U.S. Internal Revenue Service and the Commonwealth of Massachusetts' Attorney General's office for unpaid wages.

In conjunction with naming Attorney Jerry Gruenbaum of First Union Venture Group, LLC as attorney of record for the purpose of overseeing the proper disposition of the Company and its remaining assets and liabilities, the Company issued First Union Venture Group, LLC, a Nevada Limited Liability Company, Thirty Million (30,000,000) newly issued common shares as consideration for their services. In addition, the Company canceled any and all outstanding options, warrants, and/or debentures not exercised to date. The Company further nullified any and all salaries, bonuses, and benefits including severance pay and accrued salaries to Stanley A. Young and Michael Dewar.

On November 12, 2003, the Company approved the spin-off of the two subsidiaries of the Company and any and all remaining assets of the Company, including any intellectual property, to enable the Company to pursue a suitable merger candidate. In addition, the Company approved a 30 to 1 reverse split of all existing outstanding common shares of the Company. Following the 30 to 1 reverse split, the Company had 1,857,137 shares of common stock outstanding.

On November 15, 2003, a change in control of the Company occurred when the Company went through a reverse merger with PMI Wireless, Inc., a Delaware corporation with corporate headquarters located in Cordova, Tennessee. The acquisition, took place on December 1, 2003 for the aggregate consideration of fifty thousand dollars (\$50,000) which was paid to the U.S. Internal Revenue Service for the Company's prior obligations, plus assumption of the Company's existing debts, for 9,938,466 newly issued common shares of the Company. Under the said reverse merger, the former Shareholders of PMI Wireless ended up owning an 84.26% interest in the Company.

On December 10, 2003, the Company entered into an Acquisition Agreement to acquire 100% of Mound Technologies, Inc. (Mound), a Nevada corporation with its corporate headquarters located in Springboro, Ohio. The acquisition was a stock for stock exchange in which the Company acquired all of the issued and outstanding common stock of Mound in exchange for 1,256,000 newly issued shares of its common stock. As a result of this transaction, Mound became and is a wholly owned subsidiary of the Company.

In May 2004, the Company changed its name from International Wireless, Inc. to our current name, Heartland, Inc.

On December 27, 2004, the Company entered into an Acquisition Agreement to acquire 100% of Monarch Homes, Inc. (Monarch), a Minnesota corporation with its corporate headquarters located in Ramsey, MN for \$5,000,000. The acquisition price was made up of \$100,000 at closing plus a promissory note of \$1,900,000 and 667,000 restricted newly issued shares of the Company's common stock provided at closing. The Company has since rescinded said agreement and no longer owns Monarch.

Edgar Filing: HEARTLAND, INC. - Form 10QSB

On December 30, 2004, the Company entered into an Acquisition Agreement to acquire 100% of Evans Columbus, LLS (Evans), an Ohio corporation with its corporate headquarters located in Blacklick, OH for \$3,005,000. The acquisition price was paid \$5,000 at closing plus an additional 600,000 restricted newly issued shares of the Company s common stock provided at closing. The Company has since rescinded said agreement and no longer owns Evans.

12

Edgar Filing: HEARTLAND, INC. - Form 10QSB

On December 31, 2004, the Company entered into an Acquisition Agreement to acquire 100% of Karkela Construction, Inc., a Minnesota corporation with its corporate headquarters located in St. Louis Park, MN for \$3,000,000. The acquisition price consisted of \$100,000 at closing, a short term promissory note payable of \$50,000 on or before January 31, 2005, a promissory note of \$1,305,000 payable on or before March 31, 2005 which, if not paid by that date, interest is due from December 31, 2004 to actual payment at 8%, simple interest, compounded annually and 500,000 restricted newly issued shares of the Company's common stock provided at closing. To date, November 1, 2006, the promissory note has not been paid and interest, also unpaid to date, continues to accrue.

During the year ended December 31, 2005, the Company announced the following proposed acquisitions, none of which has been consummated to date:

On July 29, 2005, the Company entered into a stock purchase agreement to acquire Persinger Equipment, Inc. (Persinger) for \$4,735,000. The agreement is presently in default and the Company does not presently contemplate making the acquisition.

On September 12, 2005, the Company entered into an agreement to acquire Ney Oil Company for \$5,000,000. The Company does not presently contemplate making the acquisition.

On September 26, 2005, the Company entered into an acquisition agreement to acquire Schultz Oil Company, Inc. for \$3,500,000. The Company does not presently contemplate making the acquisition.

On September 12, 2005, the Company entered into a letter of intent to acquire NKR, Inc. doing business as Ohio Valley Lumber payable 1) \$4,000,000 in cash, 2) 2,000,000 shares of common stock, 3) and an infusion of \$2,000,000 into the Company to reduce debt. The Company contemplates making this acquisition in the very near future.

On September 21, 2005 the Company entered into a binding agreement to acquire Lee Oil Company for \$6,000,000. The Company does not presently contemplating making the acquisition.

RESULTS OF OPERATIONS FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2005.

We are a company with operations in steel fabrication, and construction. Revenues for the three months and nine months ended September 30, 2006 were \$4,918,882 and \$13,724,153, respectively, compared to \$14,265,935 and \$31,905,076 for the same periods in 2005. Total operating expenses were \$6,594,683 and \$15,480,237 for the three months and nine months ended September 30, 2006, respectively, compared to \$13,870,789 and \$33,302,194 for the same periods in 2005. These declines were primarily a result of decreased contracts in the construction segment. The decline in operating expenses was not proportional to the decline in revenues due primarily to \$1,175,335 in stock based compensation in 2006 relating to the granting of restricted shares to management and the issuance of restricted shares in payment of consulting fees.

Interest expense for the three months and nine months ended June 30, 2006 was \$2,864 and \$197,372, respectively, compared to \$149,070 and \$349,488 for the same periods in 2005. The decreases were primarily due to the conversion of convertible promissory notes.

Edgar Filing: HEARTLAND, INC. - Form 10QSB

As a result, Income (Loss) Prior to discontinued operations was (\$1,653,417) and (\$1,863,147) for the three months and nine months ended September 30, 2006, respectively, compared to (\$246,076) and (\$1,746,606) for the same periods in 2005.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was (\$471,982) for the nine months ended September 30, 2006. This was primarily related to the gain of discontinued operating subsidiaries.

Total short-term and long-term debt at September 30, 2006 was \$6,660,784 and total shareholders equity was \$576,051.

Our businesses are seasonally working capital intensive and require funding for purchases of raw materials used in production, replacement parts inventory, capital expenditures, expansion and upgrading of existing facilities, as well as for financing receivables from customers. Additionally, our auditors, in their opinion on our financial statements for the year ended December 31, 2005 issued a going concern qualification to their report dated June 21, 2006. We believe that cash generated from operations, together with our bank credit lines, and cash on hand, will provide us with a majority of our liquidity to meet our operating requirements. We believe that the combination of funds available through future anticipated financing arrangements, as discussed below, coupled with forecasted cash flows, will be sufficient to provide the necessary capital resources for our anticipated working capital, capital expenditures, and debt repayments for at least the next twelve months.

We are seeking to raise up to \$20 million of additional capital from private investors and institutional money managers in the next few months, but there can be no assurance that we will be successful in doing so. If we are not successful in raising any of this additional capital, our current cash resources may not sufficient to fund our current operations.

We may experience problems, delays, expenses, and difficulties sometimes encountered by an enterprise in our stage of development, many of which are beyond our control. For potential acquisitions, these include, but are not limited to, unanticipated problems relating to the identifying partner(s), obtaining financing, culminating the identified partner due to a number of possibilities (prices, dates, terms, etc). Due to limited experience in operating the combined entities for the Company, we may experience production and marketing problems, incur additional costs and expenses that may exceed current estimates, and competition.

Our businesses are seasonally working capital intensive and require funding for purchases of raw materials used in production, replacement parts inventory, capital expenditures, expansion and upgrading of existing facilities, as well as for financing receivables from customers. During the nine months ended September 30, 2006, the Company has not engaged in:

- Material off-balance sheet activities, including the use of structured finance or special purpose entities;
- Trading activities in non-exchange traded contracts; or
- Transactions with persons or entities that benefit from their non-independent relationship with the Company.

Inflation

We are subject to the effects of inflation and changing prices. As previously mentioned, we experienced rising prices for steel and other commodities during fiscal 2005 and for the first six months of 2006 that had a negative impact on our gross margins and net earnings. In the remainder of fiscal 2006, we expect average prices of steel and other commodities to be higher than the average prices paid in fiscal 2005

and for the first six months of 2006. We will attempt to mitigate the impact of these anticipated increases in steel and other commodity prices and other inflationary pressures by actively pursuing internal cost reduction efforts and introducing price increases.

Critical Accounting Policies and Estimates

In preparing our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we must make decisions that impact the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgments based on our understanding and analysis of the relevant circumstances, historical experience, and actuarial valuations. Actual amounts could differ from those estimated at the time the consolidated financial statements are prepared.

Edgar Filing: HEARTLAND, INC. - Form 10QSB

Our significant accounting policies are described in Note A to the consolidated financial statements. Some of those significant accounting policies require us to make difficult subjective or complex judgments or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (i) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (ii) different estimates that reasonably could have been used, or changes in the estimate that are reasonably likely to occur from period to period, would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations.

Accounts Receivable Valuation. We value accounts receivable, net of an allowance for doubtful accounts. Each quarter, we estimate our ability to collect outstanding receivables that provides a basis for an allowance estimate for doubtful accounts. In doing so, we evaluate the age of our receivables, past collection history, current financial conditions of key customers, and economic conditions. Based on this evaluation, we establish a reserve for specific accounts receivable that we believe are uncollectible, as well as an estimate of uncollectible receivables not specifically known. A deterioration in the financial condition of any key customer or a significant slow down in the economy could have a material negative impact on our ability to collect a portion or all of the accounts and notes receivable.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on us.

ITEM 3. CONTROLS AND PROCEDURES.

The Company's management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There has been no change in the Company's internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of our business, we and/or our subsidiaries are named as defendants in suits filed in various state and federal courts. We believe that none of the litigation matters in which we, or any of our subsidiaries, are involved would have a material adverse effect on our consolidated financial condition or operations.

There is no past, pending or, to our knowledge, threatened litigation or administrative action which has or is expected by our management to have a material effect upon our business, financial condition or operations, including any litigation or action involving our officers, directors, or other key personnel.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In March 2006, the Company issued 426,565 shares as part of ongoing investment activities.

In May 2006, the Company issued 485,000 shares for \$242,500 worth of services.

In September 2006, the Company issued 718,553 shares as part of ongoing investment activities.

In October 2006, the Company issued 901,000 shares as part of ongoing investment activities.

15

Edgar Filing: HEARTLAND, INC. - Form 10QSB

On November 7, 2006 the Company issued 1,000,000 shares to Robert L. Cox for future services as Chief Executive Officer.

On November 7, 2006 the Company issued 200,000 shares to Trent Sommerville as its Chairman of the Board.

On November 7, 2006 the Company issued 200,000 shares to Jerry Gruenbaum as its Chief Financial Officer.

On November 7, 2006 the Company issued 25,000 shares to Nathan Lapkin for consulting services.

On November 7, 2006 the Company issued 40,000 shares to the law firm of Sichenzia Ross Friedman Ference LLP for legal services.

In November 2006 the Company issued 270,000 shares as part of ongoing investment activities.

In November 2006 the Company issued 674,652 shares in conversion of some of the outstanding convertible note.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

The Company is obligated under the terms of a lease dated February 25, 2005 with the Receivership of Mound Properties, LP in Springboro, Ohio owned by a related party on behalf of Mound for a month to month term beginning January 2005 at a monthly rent of \$16,250. Each party has the right to terminate this lease with 30 days notice. Under the terms of the lease, the Company is responsible for utilities, personal property taxes, repairs and maintenance.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit 31.1 Certification of Trent Sommerville, Chief Executive Officer & Chairman of the Board
Exhibit 31.2 Certification of Jerry Gruenbaum, Chief Financial Officer & Director

Exhibit 32.1 Certification of Trent Sommerville, Chief Executive Officer & Chairman of the Board
Exhibit 32.2 Certification of Jerry Gruenbaum, Chief Financial Officer & Director

(b) Reports on Form 8-K:

Three Months Ended September 30, 2006

The Company filed a Form 8-K on September 28, 2006 relating to appointing Trent Sommerville as CEO of the Company.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HEARTLAND, INC.

(Registrant)

Date: November 20, 2006

By: /s/ TRENT SOMMERVILLE

Trent Sommerville
Chief Executive Officer and
Chairman of the Board
(Duly Authorized Officer)

Date: November 20, 2006

By: /s/ JERRY GRUENBAUM

Jerry Gruenbaum
Chief Financial Officer and Director
(Principal Financial
and Accounting Officer)