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HEARTLAND PARTNERS L P
Form 10-K
April 01, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2001

or

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

For the transition period from to

Commission File Number 1-10520

HEARTLAND PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-3606475
(IRS Employer
Identification no.)

330 North Jefferson Court, Chicago, Illinois
(Address of principal executive offices)

60661
(Zip Code)

Registrant's telephone number, including area code: 312/575-0400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Limited Partnership Units	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

The aggregate market value of the Registrant's Class A Limited Partnership Units held by non-affiliates of the Registrant, computed by reference to the last reported sales price of the Registrant's units on the American Stock Exchange as of March 28, 2002, was approximately \$26,288,000. On that date there were 2,092,678 units outstanding. For the purposes of this computation, it is assumed that non-affiliates of the Registrant are all holders other than directors and officers of Heartland Technology, Inc., and managers of HTI Interests, LLC.

Exhibit index appears on Page 77.

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Forward Looking Statements

We caution you that certain statements in the Management's Discussion and Analysis of Financial Condition and Results of Operations section, and elsewhere in this Form 10-K, are "forward - looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward - looking statements are not guarantees of future performance. They involve risks, uncertainties and other important factors, including the risks described in the Management's Discussion and Analysis of Financial Condition and Results of Operations section, and elsewhere in this Form 10-K. The Company's actual future results, performance or achievement of results and the value of the partnership Units, may differ materially from any such results, performance or achievement or value implied by these statements. We caution you not to put undue reliance on any forward-looking statements. In addition, we do not have any intention or obligation to update the forward-looking statements in this document. The Company claims the protections of the safe harbor for forward-looking statements contained in Section 21E of the Securities Exchange Act of 1934.

PART I

ITEM 1. Business

Organization

Heartland Partners, L.P. ("Heartland" or the "Company"), a Delaware limited partnership, was formed on October 6, 1988. Heartland's existence will continue until December 31, 2065, unless extended or dissolved pursuant to the provisions of Heartland's partnership agreement.

Heartland was organized to engage in the ownership, purchasing, development, leasing, marketing, construction and sale of real estate properties. At December 31, 2001, CMC Heartland Partners ("CMC") was an operating general partnership owned 99.99% by Heartland and .01% by Heartland Technology, Inc. ("HTI"), formerly known as Milwaukee Land Company ("MLC"). HTI was the general partner of Heartland. HTI transferred its general partner interest in the Company to HTI Interests, LLC ("HTII"), a Delaware limited liability company, owned 99.9% by HTI and .1% by HTI Principals, Inc., a Delaware corporation, owned by four of HTI's Board of Directors and a former director of HTI. HTII is now the General Partner of Heartland, (in such capacity, the "General Partner").

The following table sets forth various entities formed by the Company since its inception, date and purpose of formation, development location and ownership:

COMPANY		YEAR FORMED	BUSINESS PURPOSE
Heartland Development Corporation	("HDC")	1993	General Partner of CMC Heartland
CMC Heartland Partners I, Limited Partnership	("CMCLP")	1993	Owned Bloomfield development
CMC Heartland Partners I, LLC	("CMCI")	1998	Owns Kinzie Station Phase II
CMC Heartland Partners II, LLC	("CMCII")	1997	Owns the Goose Island Industri
CMC Heartland Partners III, LLC	("CMCIII")	1997	Owns Kinzie Station Phase I

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CMC Heartland Partners IV, LLC	("CMCIV")	1998	Developing approximately 177 a
CMC Heartland Partners V, LLC	("CMCV")	1996	Owns lots and homes in Osprey
CMC Heartland Partners VI, LLC	("CMCVI")	1997	To acquire and hold future acq
CMC Heartland Partners VII, LLC	("CMCVII")	1997	Owns lots and homes in the Lon
CMC Heartland Partners VIII, LLC	("CMCVIII")	1998	To acquire and hold future acq
Lifestyle Construction Company, Inc.	("LCC")	1998	Serves as the general contract
Lifestyle Communities, Ltd.	("LCL")	1996	Serves as the exclusive sales Longleaf and Kinzie Station

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COMPANY		DEVELOPMENT LOCATION	OWNERSHIP

Heartland Development Corporation	("HDC")	Not applicable	100%
CMC Heartland Partners I, Limited Partnership	("CMCLP")	Rosemount, Minnesota	100%
CMC Heartland Partners I, LLC	("CMCI")	Chicago, Illinois	100%
CMC Heartland Partners II, LLC	("CMCII")	Chicago, Illinois	100%
CMC Heartland Partners III, LLC	("CMCIII")	Chicago, Illinois	100%
CMC Heartland Partners IV, LLC	("CMCIV")	Fife, Washington	100%
CMC Heartland Partners V, LLC	("CMCV")	St. Marys, Georgia	100%
CMC Heartland Partners VI, LLC	("CMCVI")	Not Applicable	100%
CMC Heartland Partners VII, LLC	("CMCVII")	Southern Pines, North Carolina	100%
CMC Heartland Partners VIII, LLC	("CMCVIII")	Not Applicable	100%
Lifestyle Construction Company, Inc.	("LCC")	Not Applicable	100%
Lifestyle Communities, Ltd.	("LCL")	Not Applicable	100%

- (1) Stock wholly owned by Heartland.
- (2) HDC owns a 1% General Partnership interest and CMC owns a 99% Limited Partnership interest.
- (3) Membership interest owned by CMC.
- (4) Stock wholly owned by CMC.

Except as otherwise noted herein, references herein to "Heartland" or the "Company" include CMC, HDC, CMCLP, CMCI, CMCII, CMCIII, CMCIV, CMCV, CMCVI, CMCVII, CMCVIII, LCC and LCL. The consolidated financial statements include the accounts of Heartland. All intercompany transactions have been eliminated in consolidation.

Heartland's partnership agreement provides generally that Heartland's net income (loss) will be allocated 1% to the General Partner, 98.5% to the Class A limited partners (the "Unitholders") and 0.5% to the Class B limited partner. In addition, the partnership agreement provides that certain items of deduction,

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loss, income and gain may be specially allocated to the Class A Unitholders or to the holder of the Class B Interest or the General Partner. Also, the partnership agreement provides that if an allocation of a net loss to a partner would cause that partner to have a negative balance in its capital account at a time when one or more partners would have a positive balance in their capital account such net loss shall be allocated only among partners having positive balances in their capital account.

Subject to the limitation described in the preceding paragraph, the General Partner has the discretion to cause Heartland to make distributions of Heartland's available cash in an amount equal to 98.5% to the Unitholders, 0.5% to the holder of the Class B Interest and 1% to the General Partner. Liquidating distributions, upon dissolution of the partnership, are made pro rata to each partner in accordance with its positive Capital Account balance after certain adjustments set out in the partnership agreement. There can be no assurance as to the amount or timing of Heartland's cash distributions or whether the General Partner will cause Heartland to make a cash distribution if cash is available. On November 24, 1997, Heartland declared a cash distribution in the amount of \$1.6 million to Unitholders and Partners of record on December 29, 1997, that was paid on January 7, 1998. On December 4, 1997, Heartland's partnership agreement was amended to allow the General Partner in its discretion to establish a record date for distributions on the last day of any calendar month.

On August 22, 2001, Heartland announced that it had been authorized by its General Partner to purchase up to 50,000 of its outstanding Class A partnership units. As of December 31, 2001, the Company had repurchased 47,360 Class A partnership units at a total cost of \$794,000. These repurchases are shown as a reduction of Partners' Capital.

As of December 31, 2001, Heartland and CMC loaned HTI an aggregate of \$8,186,000. The loans are collateralized by a security interest in the Class B limited partner interest and bear interest at 13%. The Company has also received as compensation for the loans a Series C Warrant that entitles Heartland to purchase 320,000 shares of HTI common stock at an exercise price of \$1.05 per share. HTI and the Company have provided loans, on market terms, to each other from time to time, as provided in the agreements between them. The initial terms of the loan were based on the collateral of the Class B interest and prevailing borrowing rates. When HTI raised capital through the issuance of subordinated debentures at 13% interest and the grant of warrants, the loan terms were changed to reflect HTI's cost of capital.

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At December 31, 2001, HTI owed Heartland and CMC approximately \$8,186,000. On February 25, 2002, the Company and CMC demanded immediate payment in full of all obligations due under the Line of Credit Promissory Notes from HTI. Heartland has initiated steps to protect its security interest in the Class B limited partner interest (the "Collateral"). PG Oldco, Inc., a creditor of HTI under notes aggregating \$2,200,000 in principal amount, also has a security interest in the Collateral and has commenced steps to protect its interest. Under the Lien Subordination and Inter-Creditor Agreement ("Inter-Creditor Agreement") among Heartland, CMC, PG Oldco, Inc. and HTI, Heartland and CMC have a first and prior security interest in the Collateral and the proceeds thereof up to the Senior Debt Priority Amount (as defined in the Inter-Creditor Agreement) and PG Oldco, Inc. has a first and prior security interest in the Collateral and the proceeds thereof for all amounts in excess of the Senior Debt Priority Amount. Because of the competing interests in the Collateral, Heartland is not at this time able to predict the ultimate outcome of its efforts to protect its interests in the Collateral or the effect thereof on the Class A limited partners. Nevertheless, management believes the note receivable of \$8,186,000 is

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recoverable through the Company's security interest in the Class B limited partner interest.

Real Estate Development Activities

At year end 2001, property designated for development consisted of 12 sites comprising approximately 522 acres. The book value of this land is approximately \$8,294,000 or an average of \$15,900 per acre. Heartland reviews these properties to determine whether to hold, develop, joint venture or sell them. Heartland's objective for these properties is to maximize unitholder value over a period of years.

The real estate development business is highly competitive. Heartland is subject to competition from a great number of real estate developers, including developers with national operations, many of which have greater sales and financial resources than Heartland.

Kinzie Station

As of January 1, 2001, Heartland had a 3.88 acre site in the City of Chicago known as Kinzie Station. Zoning approval for the construction of 381 residential units on this 3.88 acre site was received in 1997. On March 28, 2001, zoning approval to increase the total number of residential units from 381 to 442 units was received from the City of Chicago. In addition to the 3.88 acre site, the Company owns approximately 8 acres of land and 4 acres of air rights adjacent to Kinzie Station. This acreage is currently zoned for industrial and manufacturing uses. Also, Heartland has entered into a letter of intent, subject to various contingencies, to sell a 1.82 acre parcel of this land to a commercial property developer for approximately \$5,000,000.

Kinzie Station Phase I

Kinzie Station Phase I is situated on 1.23 acres. The construction of Kinzie Station Phase I started on October 1, 1998. The Company closed 160 Tower units and 18 Plaza units during the period May 1, 2000 to December 31, 2001.

Kinzie Station
Phase I
Unit Detail
As of December 31, 2001

	Total Number of Units	Sale Contracts To-Date
Tower Building	163	160
Plaza	24	18
	-----	-----
Total	187	178
	=====	=====

On October 20, 1999, the Company executed loan documents with Bank One of Illinois ("Bank One") for a loan of \$5,250,000 to construct the Kinzie Station Plaza building. On January 30, 2001, the final principal and interest payment was made on the \$5,250,000 Kinzie Station Plaza building loan. On February 23, 2001, the Company amended this loan agreement with Bank One, and borrowed an additional \$3,000,000, of which \$1,500,000 remains outstanding at December 31, 2001, and changed the maturity date of the loan to February 23, 2002. Effective February 23, 2002, the maturity date of this loan was extended to June 23, 2002.

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The loan bears interest at the prime rate (4.75% at December 31, 2001).

Kinzie Station Phase II

As of January 1, 2001, Heartland had a 2.65 acre site in the City of Chicago known as Kinzie Station Phase II. On approximately 1.45 acres, the Company has zoning to construct a 267 unit residential tower building. On August 10, 2001, the Company closed the sale of the 1.2 acre commercial property to a developer for use as a parking facility for \$2,937,000.

Osprey Cove

Included in the aforementioned 522 acres are approximately 2 acres consisting of 4 lots purchased for \$161,000 or an average of \$40,250 per lot at Osprey Cove in St. Marys, GA. Osprey Cove is a master-planned residential community with a wide range of natural and recreation amenities, which includes a recreational complex, lakes, a boat dock and a boat launch. In December, 1999, the Company decided to cease operations at Osprey Cove. As of December 31, 2001, 65 contracts have closed in Osprey; 14 in 2001, 16 in 2000, 20 in 1999, 13 in 1998 and 2 in 1997.

Osprey Cove
Unit Inventory Detail
As of December 31, 2001

Sold homes completed	2
Lots owned (1 lot sold)	2

Total unit inventory	4
	=====

As of March 31, 2002, the 2 sold homes and 1 sold lot have closed. The 1 unsold lot owned by Heartland is being marketed and is expected to be sold and closed in the ordinary course of business.

At Osprey Cove in St. Marys, Georgia, the First National Bank of St. Marys ("FNB") in Georgia has made two loans on the two homes of \$153,000 and \$235,000 to the Company. The loans would have matured on November 7, 2002 and July 5, 2002, respectively. The loans bear interest at 7%. At December 31, 2001, \$388,000 had been advanced to Heartland on the two loans. As of March 19, 2002, these two loans have been paid in full.

Longleaf

In September, 1998, the Company signed a contract to be the exclusive homebuilder and marketer for the Longleaf Country Club in Southern Pines, North Carolina. Under the terms of the contract, CMC was entitled to sell and build up to 244 homes on lots owned by Longleaf Associates Limited Partnership ("LALP"), an affiliate of General Investment & Development, an unrelated party. Heartland assumed the day to day operations on April 1, 1998. On December 12, 2000, Heartland executed a purchase agreement whereby it purchased the remaining 207 lots owned by LALP, by the assumption of certain liabilities owed by LALP to other unrelated parties and the payment of \$250,000. The purchase price of \$2,459,000, which includes the \$250,000 paid on December 12, 2000, for these 207 lots was determined by calculating the net present value of the payments to be paid over a ten year period using a discount rate of 10%. Also, per the purchase agreement, the Company is obligated to pay LALP 49% of the Net Cash Flow, as defined, each year for the period January 1, 2001 to December 31, 2005. At December 31, 2001, no payments of Net Cash Flow are owed or due to LALP. At December 31, 2001, the Company owned 204 lots purchased for approximately

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\$2,341,000, an average of \$11,500 per lot. These 204 lots comprising 66 acres of land, are also included in the aforementioned 522 acres.

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In Longleaf, the Company has closed , as of December 31, 2001, a total of 37 contracts; 9 in 2001, 15 in 2000 and 13 in 1999. When the Company assumed day to day operations of Longleaf in April, 1998, there were a number of homes under construction which were owned by the developer, as well as resale homes, on the market. As of December 31, 2001, the Company has sold 43 homes and 5 lots for these owners since April 1, 1998.

Longleaf Unit Inventory Detail As of December 31, 2001

Model homes completed	2
Sold homes not under construction	1
Inventory homes completed	5
Lots owned	196

Total unit inventory	204
	=====

On December 8, 2000, Heartland entered into an agreement for a \$3,000,000 revolving line of credit for the construction of homes in Longleaf with Bank One. Also, on December 8, 2000, Heartland borrowed \$250,000 from Bank One to purchase the remaining lots owned by LALP. This \$250,000 was the first payment related to certain liabilities assumed by the Company in accordance with a purchase agreement executed on December 12, 2000. The revolving line of credit and \$250,000 loan mature April 12, 2002 and bear interest at the prime rate (4.75% at December 31, 2001). At December 31, 2001, \$1,358,000 had been advanced by Bank One to Heartland on these two loans. The Company is currently in negotiations with Bank One to extend the maturity dates of the revolving line of credit and \$250,000 loan. While the Company has no reason to believe the extension of the credit facility and loan will not be approved by Bank One, there can be no assurance the contemplated extension will be given. The consolidated financial statements do not contain any adjustments to reflect the ultimate outcome of this uncertainty.

Bloomfield

At January 1, 2001, the Company owned two parcels of land in Rosemount, Minnesota. The Company zoned, subdivided and improved parts of the property as a master planned community called Bloomfield.

On March 31, 2001, the Company closed the sale of 113 acres it owned in Rosemount, Minnesota to a local church for \$4,000,000.

On June 21, 2001, Centex Homes purchased the Company's remaining 122 acres for \$5,275,000.

Bozeman, Montana

Heartland sold its 14-acre property in Bozeman, Montana to the Bozeman Public Library for \$2,150,000. This sale closed October 1, 2001.

Fife, Washington

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On December 1, 1998, the Company's 177 acre Fife property was annexed to the City of Fife, Washington. A Local Improvement District (LID) has been approved in order to support the improvement and extension of sewers and sewer capacity for the site. The City of Fife has zoned the property for residential usage. The Fife City Council approved the preliminary plat for the project on September 25, 2001.

On December 28, 2001, Heartland executed a construction management agreement with Crab Apple Beach, L.L.C., an unrelated party, to assist in the management of the development, in phases, of the Fife property. Also, the Company anticipates completing the engineering for the first phase of the development and submitting to the City of Fife the final first phase plat for its approval in the second quarter of the year 2002.

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Goose Island Joint Venture

Heartland, along with Colliers, Bennett and Kahnweiler, a Chicago based real estate company, and Wooton Construction, have formed a joint venture to develop approximately 265,000 square feet of industrial space in the Goose Island Industrial Park in Chicago, Illinois. As of December 31, 2001, the buildings had been built and leases had been signed for all of the 265,000 square feet. On August 27, 2001, Heartland signed a listing agreement with Grubb & Ellis, a national real estate brokerage firm, to sell its interest in the Goose Island Industrial Park. This listing agreement expired December 31, 2001.

Menomonee Valley

The Company owns approximately 142 acres of property in the Menomonee River Valley in Milwaukee, Wisconsin. The property is located next to Miller Park, the home stadium of the Milwaukee Brewers baseball team. The Company has proposed a mixed use development to include retail and entertainment uses complementary to the baseball park as a recreational destination. The City of Milwaukee has stated that it believes industrial development would be more appropriate for the site and the Redevelopment Authority of the City of Milwaukee ("RACM") has announced it will seek to acquire the property through eminent domain if necessary. RACM is required to negotiate with the Company before it can file an eminent domain proceeding. The Company may assert legal challenges to RACM's authority if RACM does condemn the property. The outcomes of any eminent domain proceeding or legal challenges to it are uncertain.

Property Sales and Leasing Activities

Heartland's current inventory of land held for sale consists of approximately 13,993 acres located throughout 12 states. The book value of this inventory is approximately \$723,000. The majority of the land is former railroad rights-of-way, long, narrow strips of land approximately 100 feet in width. Some of Heartland's sites, located in small rural communities or outlying mid-cities, are leased to third parties for agricultural use and these sites may be improved with the lessee's structures.

The sale, management and leasing of the Company's non-development real estate inventory is conducted by Heartland's Sales and Property Management Department. The volume of Company's sales has slowed over the last seven years due to the less desirable characteristics of the remaining properties. The Company anticipates that the sale of its remaining parcels may extend beyond the year 2002.

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The Company leases less than 1% of its total acreage under operating leases. The number of leases declines each year as sales of properties are made to existing lessees. The majority of the leases provide nominal rental income to Heartland. The leases generally require the lessee to construct, maintain and remove any improvements, pay property taxes, maintain insurance and maintain the condition of the property. The majority of the leases are cancellable by either party upon thirty to sixty days notice. Heartland's ability to terminate or modify certain of its leases is restricted by applicable law and regulations.

Other Activities

At December 31, 2001, the allowance for claims and liabilities established by Heartland for environmental and other contingent liabilities totaled approximately \$4,337,000. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Given the uncertainty inherent in litigation, resolution of these matters could require funds greater or less than the \$4,337,000 allowance for claims and liabilities.

Heartland engages outside counsel to defend it in connection with most of these claims. Significant claims are summarized in Note 8 to the Consolidated Financial Statements (See Item 8).

Regulation and Environmental Matters

For a discussion of regulation and environmental matters, see Notes 5 and 8 to the Consolidated Financial Statements (See Item 8).

Employees

At December 31, 2001, Heartland employed 20 people.

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Item 2. Properties

The Company has the right to sell easements for fiber optic lines along or across 83 miles of rail right of way running from downtown Chicago west to Elgin and Northwest to Fox Lake, Illinois. The Company actively markets fiber optics easements and is seeking opportunities to generate additional proceeds through the sale of these rights. The Company receives 2/3 of the proceeds of any sale.

In addition to the 522 acres designated for development at December 31, 2001, real estate holdings consisted of approximately 13,993 acres of scattered land parcels. States in which large land holdings are located are Illinois, Iowa, Minnesota, Montana, North Carolina, North Dakota, South Dakota, Washington, and Wisconsin. The remaining acreage is located in Georgia, Idaho, Indiana, Michigan and Missouri. Most of the properties are former railroad rights-of-way, located in rural areas, comprising of long strips of land approximately 100 feet in width. Also, included in these scattered land parcels are former station grounds and rail yards. The Company owns certain air rights in the Chicago, Illinois and Milwaukee, Wisconsin areas.

Other than land classified under Real Estate Development Activities in Item 1, the land is typically unimproved. Some of the properties are improved with structures (such as grain elevators and sheds) erected and owned by lessees. Other properties are improved with Heartland-owned buildings that are of little or no value.

Heartland's headquarters occupies approximately 4,000 square feet of owned office space located at 330 North Jefferson Court, Suite 305, Chicago, Illinois.

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This office space is in the Tower building of the Company's Kinzie Station Phase I development.

Item 3. Legal Proceedings

In June, 1997, the Port of Tacoma ("Port") filed a complaint in the United States District Court for the Western District of Washington alleging that the Company was liable under Washington state law for the cost of the Port's remediation of a railyard sold in 1980 by the bankruptcy trustee for the Company's predecessor to the Port's predecessor in interest.

On October 1, 1998, the Company entered into a Settlement Agreement with the Port of Tacoma which calls for the Company to either pay the Port of Tacoma \$1,100,000 or transfer to the Port of Tacoma real estate to be agreed upon at a later date. On January 9, 2002, the Company modified its October 1, 1998 settlement agreement with the Port of Tacoma in which the Port of Tacoma released all claims against the Company and the Company agreed either to, (a) pay \$1,100,000 on or before December 31, 2002 plus interest from January 1, 1999, or (b) convey real property to be agreed upon at a later date.

The Company will not make a claim on its insurance carriers in this matter because the settlement amount does not exceed the self insured retention under the applicable insurance policies.

On December 2, 2000, the Redevelopment Authority of the City of Milwaukee ("RACM") filed suit in Milwaukee County Circuit Court to obtain access to appraise, survey and conduct environmental and geo-technical investigations on certain property owned by the Company adjacent to the Milwaukee Brewers baseball stadium in furtherance of RACM's efforts to acquire the property by condemnation. The Company and RACM entered into an agreement under which RACM will perform, at RACM's cost, limited investigations and provide the results to Heartland.

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In February, 2002, the Company filed suit against the Southeast Wisconsin Professional Baseball District to enforce a provision of a contract between the District and Heartland providing for the construction of an additional two lane bridge to the Company's Menomonee Valley project.

As part of the Company's sale of certain property in Milwaukee, Wisconsin to the State of Wisconsin, in December, 2000, for \$1,400,000, the Company undertook to cause a lessee of part of the property to surrender its lease. By Settlement Agreement dated July 5, 2001, the lessee agreed to surrender its lease in consideration, among other things, of the payment from the Company of \$126,000. This amount was paid to the lessee in July, 2001.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of Unitholders of Heartland in the fourth quarter ended December 31, 2001.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

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The Units are listed and traded on the American Stock Exchange under the symbol "HTL". The Units began trading on a "when issued" basis on June 20, 1990. The following table sets forth the high and low sales prices per Unit by quarter for the years ended December 31, 2001 and 2000.

2001	High	Low
First quarter	\$ 19	\$ 17 1/2
Second quarter	17 1/2	14 1/4
Third quarter	15 1/2	13 3/5
Fourth quarter	17 1/4	14 5/6
2000		
First quarter	\$ 23 3/4	\$ 20 1/2
Second quarter	22 1/8	18 3/4
Third quarter	22 5/8	18 7/8
Fourth quarter	22 3/16	18 3/4

Based on records maintained by Heartland's Unit transfer agent and registrar, there were approximately 522 record holders of Heartland's Units as of March 15, 2002.

The amount of Heartland's cash available to be distributed to Unitholders, the holder of the Class B Interest and the General Partner ("Available Cash Flow") will be determined by the General Partner, in its sole discretion, after taking into account all factors deemed relevant by the General Partner, including, without limitation, general economic conditions and Heartland's financial condition, results of operations and cash requirements, including (i) the servicing and repayment of indebtedness, (ii) general and administrative charges, including fees and expenses payable to HTI under management and other arrangements, (iii) property and operating taxes, (iv) other costs and expenses, including legal and accounting fees, and (v) reserves for future growth, commitments and contingencies.

Heartland's Available Cash Flow will be derived from CMC, CMCLP, CMCI, CMCII, CMCIII, CMCIV, CMCV, CMCVII and LCL. When available and appropriate, the General Partner expects to cause Heartland to make distributions of Heartland's Available Cash Flow in an amount equal to 98.5% to the Unitholders, 0.5% to the holder of the Class B Interest, and 1% to the General Partner, although there can be no assurance as to the amount or timing of Heartland's cash distributions or whether the General Partner will cause Heartland to make a cash distribution if cash is available. Liquidating distributions, upon dissolution of the partnership, are made pro rata to each partner in accordance with its positive Capital Account balance after certain adjustments set out in the Partnership agreement. Future lenders to Heartland may impose restrictions on Heartland's ability to make distributions. In addition, distributions may not be made to Unitholders until Heartland has paid to HTI (or its assignee) all accrued and unpaid management fees pursuant to the Management Agreement between Heartland and HTI. On December 4, 1997, Heartland's partnership agreement was amended to allow the General Partner in its discretion to establish a record date for distributions on the last day of any calendar month.

On August 22, 2001, Heartland announced that it had been authorized by its General Partner to purchase up to 50,000 of its outstanding Class A partnership units. As of December 31, 2001, the Company had repurchased 47,360 Class A partnership units at a total cost of \$794,000. These repurchases are shown as a reduction of Partners' Capital.

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Item 6. Selected Financial Data

Following is a summary of Heartland's selected financial data for the years ended December 31, 2001, 2000, 1999, 1998 and 1997 (amounts in thousands except per Unit data):

Operating Statement Data:	2001	2000	1999	1998	1997
	-----	-----	-----	-----	-----
Operating income (loss)	\$ 4,426	\$ 8,436	\$ (5,010)	\$ (6,998)	\$ (3,096)
Other income	932	1,408	1,253	914	933
	-----	-----	-----	-----	-----
Net income (loss)	\$ 5,358	\$ 9,844	\$ (3,757)	\$ (6,084)	\$ (2,163)
	=====	=====	=====	=====	=====
Net income (loss) allocated to General Partner and Class B Interest	\$ 80	\$ 3,938	\$ (3,757)	\$ (182)	\$ (33)
	=====	=====	=====	=====	=====
Net income (loss) allocated to Class A units	\$ 5,278	\$ 5,906	\$ --	\$ (5,902)	\$ (2,130)
	=====	=====	=====	=====	=====
Net income (loss) per Class A Unit	\$ 2.48	\$ 2.76	\$ --	\$ (2.76)	\$ (0.99)
	=====	=====	=====	=====	=====
Distribution declared per Class A limited Partnership unit	\$ --	\$ --	\$ --	\$ --	\$ 0.75
	=====	=====	=====	=====	=====

Balance Sheet Data	DECEMBER 31, 2001	DECEMBER 31, 2000	DECEMBER 31, 1999	DECEMBER 31, 1998	DECEMBER 31, 1997
	-----	-----	-----	-----	-----
Net Properties	\$ 28,201	\$ 38,916	\$ 50,751	\$ 28,052	\$ 23,196
Total assets	38,420	47,584	57,256	33,231	26,838
Allowance for claims and liabilities	4,337	4,478	2,804	2,762	2,169
Total liabilities	18,360	32,088	51,604	23,822	11,347
Partners' capital	20,060	15,496	5,652	9,409	15,491

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

We caution you that certain statements in the Management's Discussion and Analysis of Financial Condition and Results of Operations section are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward - looking statements are not guarantees of future performance. They involve risks, uncertainties and other important factors, including the risks described in the Management's Discussion and

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Analysis of Financial Condition and Results of Operations section. The Company's actual future results, performance or achievement of results and the value of the partnership Units, may differ materially from any such results, performance or achievement or value implied by these statements. We caution you not to put undue reliance on any forward-looking statements. In addition, we do not have any intention or obligation to update the forward-looking statements in this document. The Company claims the protections of the safe harbor for forward-looking statements contained in Section 21E of the Securities Exchange Act of 1934.

Liquidity and Capital Resources

Cash flow for operating activities has been derived primarily from development activities, proceeds of property sales, rental income, interest income and proceeds from sales of securities. Cash was \$1,299,000 (including \$1,196,000 of restricted cash) at December 31, 2001, \$2,849,000 (including \$2,699,000 of restricted cash) at December 31, 2000 and \$4,412,000 (including \$4,182,000 of restricted cash) at December 31, 1999. The decrease of \$1,550,000 from December 31, 2000 to December 31, 2001, is primarily due to the closing of 38 Kinzie Station Phase I units and the return of all of the Kinzie Station Phase II purchasers' earnest money. The decrease of \$1,563,000 from December 31, 1999 to December 31, 2000 was primarily due to the closing of 140 Kinzie Station Phase I units. (See the Consolidated Statements of Cash Flows).

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Net cash provided by operating activities was \$10,444,000 in 2001, compared to \$16,364,000 in 2000. The cash provided by operating activities from the year 2001 compared to the year 2000 decreased by \$5,920,000. This is primarily due to housing inventories decreasing \$9,507,000 in 2001 compared to \$13,909,000 in 2000, which is a difference of \$4,402,000. This difference is attributable to closing 38 units in 2001 in Kinzie Station Phase I, compared to 140 units in 2000. Also, the net cash used to reduce accounts payable and accrued liabilities in 2001 was \$4,642,000 as compared to 2000 of \$3,063,000. This is an increase of \$1,579,000 in cash used in operating activities between the years. Net cash provided by operating activities was \$16,364,000 in 2000, compared to (\$18,208,000) of cash used in operating activities in 1999. The cash provided by operating activities for 2000 compared to 1999 increased \$34,572,000. This is primarily due to the significant increase of housing inventories in 1999 relating to the development of Kinzie Station Phase I and other homebuilding activities. During 2000, the Company's housing inventories decreased primarily as a result of sales of units in Kinzie Station Phase I. Additionally, the Company's housing inventories decreased significantly at Osprey Cove and Rosemount due to the Company's decision to cease homebuilding activities and the bulk sale of developed property at Rosemount. This resulted in a decrease in housing inventories of \$34,194,000 from 1999 to 2000. (See the Consolidated Statements of Cash Flows).

During the year 2002, cash flows to pay development and homebuilding construction costs will be provided by development, construction and line of credit loans received from various sources.

Proceeds from property sales provided cash flow of \$30,471,000 in 2001, \$61,009,000 in 2000 and \$11,548,000 in 1999. Sales in 2001 consists of 38 units in Kinzie Station Phase I for \$11,903,000, 9 units in Longleaf for \$2,395,000, 235 acres of land in Rosemount, Minnesota for \$9,275,000, 14 acres of land in Bozeman, Montana for \$2,150,000 and 1.2 acres of land in Kinzie Station Phase II for \$2,937,000. Sales in 2000 consists of 140 units in Kinzie Phase I for \$33,637,000, 16 units in Osprey Cove for \$2,477,000, 15 units in Longleaf for \$3,839,000, 21 units and developed acreage in Rosemount for \$8,249,000, 67 acres at Galewood in Chicago, Illinois for \$7,160,000 and 2 acres at Kinzie Station in

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Chicago, Illinois for \$2,457,000. Sales in 1999 consists of 20 units in Osprey Cove for \$4,975,000, 13 units in Longleaf for \$2,989,000, 6 units in Rosemount for \$999,000 and a parcel of land in Milwaukee, WI for \$1,100,000.

During the year 2002, proceeds from property sales will consist of the sale of Kinzie Phase I units, Longleaf homes, Osprey Cove homes and lots, development properties, and land held for sale acreage.

The cost of property sales for 2001 was \$19,908,000 or 65% of sales proceeds, for 2000 was \$45,612,000 or 75% of sales proceeds and for 1999 \$9,772,000 or 85% of sales proceeds.

It is not expected that future cost of sales ratios for real estate other than development projects and home sales will change materially from ratios experienced in prior years, as the balance of Heartland's real estate other than development projects consists primarily of railroad properties acquired over the past 150 years at values far lower than current fair values.

Portfolio income is derived principally from the interest earned on the HTI note receivable, interest earned on certificates of deposit and investment of cash not required for operating activities in various U. S. Government and corporate obligations. Portfolio income for 2001 was \$1,176,000 compared to \$390,000 for 2000 and \$123,000 for 1999. The increase in portfolio income from the year 2000 to the year 2001 of \$786,000 is mainly attributable to additional interest earned on the HTI note receivable of \$588,000 and interest earned of \$162,000 on the delayed closing of the 113 acres in Rosemount, Minnesota.

As of December 31, 2001, Heartland had designated 12 sites, or approximately 522 acres with a book value of approximately \$8,294,000, for development. Capitalized expenditures at these sites were \$9,891,000 in 2001, \$30,250,000 in 2000 and \$32,247,000 in 1999. At December 31, 2001, capitalized costs on development properties including housing inventories totaled \$17,626,000. Expenditures which significantly increase the value and are directly identified with a specific project are capitalized.

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At December 31, 2001, land held for sale consists of 13,993 acres with a book value of \$723,000. It will be disposed of in an orderly fashion. It is anticipated that it will extend beyond the year 2002 to dispose of most of these properties.

It is the Company's practice to evaluate environmental liabilities associated with the Company's properties. Heartland monitors the potential exposure to environmental costs on a regular basis and has recorded a liability in the amount of \$4,066,000 at December 31, 2001 and \$4,096,000 at December 31, 2000 for possible environmental liabilities, including remediation, legal and consulting fees. A reserve is established with regard to potential environmental liabilities when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. The amount of any liability is determined independently from any claim for recovery. If the amount of the liability cannot be reasonably estimated, but management is able to determine that the amount of the liability is likely to fall within a range, and no amount within that range can be determined to be the better estimate, then a reserve in the minimum amount of the range is accrued. If the Company were to use a different approach, the reserve could be materially higher. However, estimates can be affected by various uncertainties including future changes in technology, changes in regulations or requirements of local governmental authorities, third party claims, the scope and cost to be performed at each site, the portion of costs that may be shared and the timing of the remediation work. At December 31, 2001, there is not sufficient information to reasonably estimate all the

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environmental liabilities of which management is aware. Accordingly, management is able to determine whether environmental liabilities which management is unable to reasonably estimate will or will not have a material effect on Heartland's results of operations or financial condition. As additional information becomes available, the Company will reassess its reserves which may then be modified and related charges/credits against earnings may then be made.

In addition, Heartland has established an allowance for resolution of non-environmental claims of \$271,000 at December 31, 2001 and \$382,000 at December 31, 2000.

Heartland does not at this time anticipate that these claims or assessments will have a material effect on the Company's liquidity, financial position and results of operations beyond the reserve which the Company has established for such claims and assessments. In making this evaluation, the Company has assumed that the Company will continue to be able to assert the bankruptcy bar arising from the reorganization of its predecessor and that resolution of current pending and threatened claims and assessments will be consistent with the Company's experience with similar previously asserted claims and assessments.

While the timing of the payment of environmental claims has not significantly adversely effected the Company's cash flow or liquidity in the past, management is not able to reasonably anticipate whether future payments may or may not have a significant adverse effect in the future.

Notwithstanding, at December 31, 2001, there is not sufficient information to reasonably estimate all the environmental liabilities of which management is aware. Accordingly, management is unable to determine whether environmental liabilities which management is unable to reasonably estimate will or will not have a material effect on Heartland's results of operations or financial condition.

At December 31, 2001, HTI owed Heartland and CMC approximately \$8,186,000. On February 25, 2002, the Company and CMC demanded immediate payment in full of all obligations due under the Line of Credit Promissory Notes from HTI. Heartland has initiated steps to protect its security interest in the Class B limited partner interest (the "Collateral"). PG Oldco, Inc., a creditor of HTI under notes aggregating \$2,200,000 in principal amount, also has a security interest in the Collateral and has commenced steps to protect its interest. Under the Lien Subordination and Inter-Creditor Agreement ("Inter-Creditor Agreement") among Heartland, CMC, PG Oldco, Inc. and HTI, Heartland and CMC have a first and prior security interest in the Collateral and the proceeds thereof up to the Senior Debt Priority Amount (as defined in the Inter-Creditor Agreement) and PG Oldco, Inc. has a first and prior security interest in the Collateral and the proceeds thereof for all amounts in excess of the Senior Debt Priority Amount. Because of the competing interests in the Collateral, Heartland is not at this time able to predict the ultimate outcome of its efforts to protect its interests in the Collateral or the effect thereof on the Class A limited partners. Nevertheless, management believes the note receivable of \$8,186,000 is recoverable through the Company's security interest in the Class B limited partner interest.

Heartland's management believes it will have sufficient funds available for operating expenses, but anticipates the necessity of utilizing outside financing to fund development projects. As of December 31, 2001, the Company had a line of credit with LaSalle National Bank ("LNB") in the amount of \$5,000,000. Cash in the amount of \$1,150,000 is pledged as an interest reserve. Heartland has also granted LNB, as collateral for the line of credit, a first lien on certain parcels of land in Chicago, Illinois, Milwaukee, Wisconsin and Fife, Washington.

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The Company has also pledged as collateral its interest in the Goose Island joint venture. The net worth requirement for the line of credit is \$5,500,000. Advances against the line of credit bear interest at the prime rate of LNB plus 1.5% (6.25% at December 31, 2001). At December 31, 2001, \$3,500,000 had been advanced to Heartland by LNB against the line of credit. The loan matured February 28, 2002. The Company is currently in negotiations with LNB to increase the loan amount and extend the maturity date of the revolving line of credit. While the Company has no reason to believe the increase in the loan amount and extension of the credit facility will not be approved by LNB, there can be no assurance the contemplated increase and extension will be given. The consolidated financial statements do not contain any adjustments to reflect the ultimate outcome of this uncertainty.

At December 31, 2001, the Company had capital and operating lease obligations of the following:

	2002	2003	2004	2005	Total
	-----	-----	-----	-----	-----
Capital leases	\$ 47,000	\$ 25,000	\$ --	\$ --	\$ 72,000
Operating leases	34,000	20,000	9,000	3,000	66,000
Model home rent - two officers of Heartland	79,000	79,000	20,000	--	178,000
	-----	-----	-----	-----	-----
Total	\$ 160,000	\$ 124,000	\$ 29,000	\$ 3,000	\$ 316,000
	=====	=====	=====	=====	=====

Results of Operations

For the year ended December 31, 2001, operations resulted in a net income of \$5,358,000 or \$2.48 per Class A Unit. Operations for the years ended December 31, 2000 and 1999 resulted in a net income of \$9,844,000 or \$2.76 per Class A Unit and a net loss of \$3,757,000 or \$0 per Class A Unit, respectively.

The difference in net income in 2001 compared to the net income in 2000 of \$4,486,000 is due to a decrease in sales volume. Net income in 2000, compared to the net loss in 1999, increased \$13,601,000 due to a substantial increase in sales volume.

Total operating expenses for 2001 were \$6,137,000 compared to \$6,961,000 for 2000 and \$6,786,000 for 1999. The decrease of \$824,000 in 2001 compared to 2000 is primarily due to decreased general and administrative expenses of \$471,000.

Economic and Other Conditions Generally

The real estate industry is highly cyclical and is affected by changes in national, global and local economic conditions and events, such as employment levels, availability of financing, interest rates, consumer confidence and the demand for housing and other types of construction. Real estate developers are subject to various risks, many of which are outside the control of the developer, including real estate market conditions, changing demographic conditions, adverse weather conditions and natural disasters, such as hurricanes and tornadoes, delays in construction schedules, cost overruns, changes in government regulations or requirements, increases in real estate taxes and other local government fees and availability and cost of land, materials and labor. The occurrence of any of the foregoing could have a material adverse effect on the financial conditions of Heartland.

Access to Financing

The real estate business is capital intensive and requires expenditures for land and infrastructure development, housing construction and working capital. Accordingly, Heartland anticipates incurring additional indebtedness to fund their real estate development activities. As of December 31, 2001, Heartland's total consolidated indebtedness was \$6,746,000. This amount is due within one year from January 1, 2002. There can be no assurance that the amounts available from internally generated funds, cash on hand, Heartland's existing credit facilities and sale of non-strategic assets will be sufficient to fund Heartland's anticipated operations. Heartland may be required to seek additional capital in the form of equity or debt financing from a variety of potential sources, including additional bank financing and sales of debt or equity securities. No assurance can be given that such financing will be available or, if available, will be on terms favorable to Heartland. If Heartland is not successful in obtaining sufficient capital to fund the implementation of its business strategy and other expenditures, development projects may be delayed or abandoned. Any such delay or abandonment could result in a reduction in sales and would adversely affect Heartland's future results of operations.

Period-to-Period Fluctuations

Heartland's real estate projects are long-term in nature. Sales activity varies from period to period, and the ultimate success of any development cannot always be determined from results in any particular period or periods. Thus, the timing and amount of revenues arising from capital expenditures are subject to considerable uncertainty. The inability of Heartland to manage effectively their cash flows from operations would have an adverse effect on their ability to service debt, and to meet working capital requirements.

Interest Rate Sensitivity

The Company's total consolidated indebtedness at December 31, 2001, is \$6,746,000. The Company pays interest on its outstanding borrowings under revolving credit facilities and fixed loan amounts at prime or the prime rate plus 1.50% and at a fixed rate of 8%. (See Note 4 to the Consolidated Financial Statements.) An adverse change of 1.00% in the prime rate would increase the yearly interest incurred by approximately \$67,000.

Item 7A: Quantitative and Qualitative Disclosures about Market Risk

See Management's Discussion and Analysis of Financial Condition and Results of Operations: Economic and Other Conditions and Interest Rate Sensitivity.

PART II

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT ACCOUNTANTS

To the Partners and Unitholders of Heartland Partners, L.P.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a) (1) on page 67, present fairly, in all material

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respects, the financial position of Heartland Partners, L.P. and its subsidiaries at December 31, 2001, and the results of their operations and their cash flows for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 14(a)(2) on page 67, present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Chicago, Illinois

March 29, 2002

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HEARTLAND PARTNERS, L.P.
CONSOLIDATED BALANCE SHEET
December 31, 2001
(amounts in thousands)

	2001

Assets:	
Cash	\$ 103
Restricted cash	1,196
Accounts receivable	430
Note receivable from affiliate	8,186
Prepaid and other assets	138
Investment in joint venture	166

Total	10,219

Property:	
Land	1,072
Buildings and improvements	1,630
Less accumulated depreciation	1,144

Net land, buildings and improvements	1,558
Land held for sale	723
Housing inventories	10,847
Land held for development	4,807

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Capitalized predevelopment costs	10,266

Net properties	28,201

Total assets	\$ 38,420
	=====
Liabilities:	
Notes payable	\$ 6,746
Accounts payable and accrued expenses	2,625
Cash overdraft	278
Accrued real estate taxes	817
Allowance for claims and liabilities	4,337
Unearned rents and deferred income	1,530
Other liabilities	2,027

Total liabilities	\$ 18,360

Partners' Capital:	
General Partner	81
Class A Limited Partners - 2,142 units authorized, issued and 2,095 units outstanding	10,390
Class B Limited Partner	9,589

Total partners' capital	20,060

Total liabilities and partners' capital	\$ 38,420
	=====

See accompanying notes to Consolidated Financial Statements

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HEARTLAND PARTNERS, L.P.
CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2001
(amounts in thousands, except for per unit data)

	2001

Income:	
Property sales	\$ 30,471
Less: Cost of property sales	19,908

Gross profit on property sales	10,563

Operating Expenses:	
Selling expenses	3,921
General and administrative expenses	1,888
Real estate taxes	225
Environmental expense	103

Total operating expenses	6,137

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Operating income	4,426
Other Income and (Expense):	
Portfolio income	1,176
Rental income	378
Other income	122
Depreciation	(319)
Management fee	(425)
Total other income	932
Net income	\$ 5,358
Net income allocated to General Partner	\$ 54
Net income allocated to Class B limited partner	\$ 26
Net income allocated to Class A limited partners	\$ 5,278
Net income per Class A limited partnership unit	\$ 2.48
Weighted average number of Class A limited partnership units outstanding	2,127

See accompanying notes to Consolidated Financial Statements

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HEARTLAND PARTNERS, L.P.
CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
For the Year Ended December 31, 2001
(amounts in thousands)

	General Partner	Class A Limited Partners	Class B Limited Partner	Total
	-----	-----	-----	-----
Balances at December 31, 2000	\$ 27	\$ 5,906	\$ 9,563	\$ 15,496
Net income	54	5,278	26	5,358

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Redemption of Class A Limited Partners Units	--	(794)	--	(794)
	-----	-----	-----	-----
Balances at December 31, 2001	\$ 81	\$ 10,390	\$ 9,589	\$ 20,060
	=====	=====	=====	=====

See accompanying notes to Consolidated Financial Statements

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HEARTLAND PARTNERS, L.P.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2001
(amounts in thousands)

	2001

Cash Flow from Operating Activities:	
Net income	\$ 5,358
Adjustments reconciling net income to net cash provided by operating activities:	
Equity in loss of joint venture	136
Depreciation	319
Write off of Kinzie Station fixed assets	688
Net change in allowance for claims and liabilities	(141)
Net change in assets and liabilities:	
Decrease in accounts receivable	152
Decrease in housing inventories, net	9,507
Decrease in land held for sale	17
Decrease in land held for development	690
Increase in capitalized predevelopment costs, net	(487)
Decrease in accounts payable and accrued liabilities	(4,642)
Net change in other assets and liabilities	(1,153)

Net cash provided by operating activities	10,444

Cash Flow from Investing Activities:	
Additions to land, building and other, net	(19)
Increase in note receivable from affiliate	(3,605)

Net cash used in investing activities	(3,624)

Cash Flow from Financing Activities:	
Payoffs/advances on notes payable, net	(7,929)
Redemption of Class A Limited Partner units	(794)
Distributions received from joint venture	75
Decrease in restricted cash	1,503
Cash overdraft	278

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Net cash used in financing activities	(6,867)

Net decrease in cash	(47)
Cash at beginning of year	150

Cash at end of year	\$ 103
	=====

See accompanying notes to Consolidated Financial Statements

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Heartland Partners, L.P.
Notes to Consolidated Financial Statements
For the year ended December 31, 2001

1. Organization

Heartland Partners, L.P. ("Heartland" or the "Company"), a Delaware limited partnership, was formed on October 6, 1988. Heartland's existence will continue until December 31, 2065, unless extended or dissolved pursuant to the provisions of Heartland's partnership agreement.

Heartland was organized to engage in the ownership, purchasing, development, leasing, marketing, construction and sale of real estate properties. At December 31, 2001, CMC Heartland Partners ("CMC") was an operating general partnership owned 99.99% by Heartland and .01% by Heartland Technology, Inc. ("HTI"), formerly known as Milwaukee Land Company ("MLC"). HTI was the general partner of Heartland. HTI transferred its general partner interest in the Company to HTI Interests, LLC ("HTII"), a Delaware limited liability company, owned 99.9% by HTI and .1% by HTI Principals, Inc., a Delaware corporation, owned by four of HTI's Board of Directors and a former director of HTI. HTII is now the General Partner of Heartland, (in such capacity, the "General Partner").

The following table sets forth various entities formed by the Company since its inception, date and purpose of formation, development location and ownership:

COMPANY		YEAR FORMED	BUSINESS PURPOSE
-----		-----	-----
Heartland Development Corporation	("HDC")	1993	General Partner of CMC Heartland
CMC Heartland Partners I, Limited Partnership	("CMCLP")	1993	Owned Bloomfield development
CMC Heartland Partners I, LLC	("CMCI")	1998	Owns Kinzie Station Phase II
CMC Heartland Partners II, LLC	("CMCII")	1997	Owns the Goose Island Industri
CMC Heartland Partners III, LLC	("CMCIII")	1997	Owns Kinzie Station Phase I
CMC Heartland Partners IV, LLC	("CMCIV")	1998	Developing approximately 177 a
CMC Heartland Partners V, LLC	("CMCV")	1996	Owns lots and homes in Osprey
CMC Heartland Partners VI, LLC	("CMCVI")	1997	To acquire and hold future acq

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CMC Heartland Partners VII, LLC	("CMCVII")	1997	Owns lots and homes in the Lon
CMC Heartland Partners VIII, LLC	("CMCVIII")	1998	To acquire and hold future acq
Lifestyle Construction Company, Inc.	("LCC")	1998	Serves as the general contract
Lifestyle Communities, Ltd.	("LCL")	1996	Serves as the exclusive sales Longleaf and Kinzie Station

COMPANY		DEVELOPMENT LOCATION	OWNE
-----		-----	-----
Heartland Development Corporation	("HDC")	Not applicable	100%
CMC Heartland Partners I, Limited Partnership	("CMCLP")	Rosemount, Minnesota	100%
CMC Heartland Partners I, LLC	("CMCI")	Chicago, Illinois	100%
CMC Heartland Partners II, LLC	("CMCII")	Chicago, Illinois	100%
CMC Heartland Partners III, LLC	("CMCIII")	Chicago, Illinois	100%
CMC Heartland Partners IV, LLC	("CMCIV")	Fife, Washington	100%
CMC Heartland Partners V, LLC	("CMCV")	St. Marys, Georgia	100%
CMC Heartland Partners VI, LLC	("CMCVI")	Not Applicable	100%
CMC Heartland Partners VII, LLC	("CMCVII")	Southern Pines, North Carolina	100%
CMC Heartland Partners VIII, LLC	("CMCVIII")	Not Applicable	100%
Lifestyle Construction Company, Inc.	("LCC")	Not Applicable	100%
Lifestyle Communities, Ltd.	("LCL")	Not Applicable	100%

- (1) Stock wholly owned by Heartland.
- (2) HDC owns a 1% General Partnership interest and CMC owns a 99% Limited Partnership interest.
- (3) Membership interest owned by CMC.
- (4) Stock wholly owned by CMC.

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Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

Except as otherwise noted herein, references herein to "Heartland" or the "Company" include CMC, HDC, CMCLP, CMCI, CMCII, CMCIII, CMCIV, CMCV, CMCVI, CMCVII, CMCVIII, LCC and LCL. The consolidated financial statements include the accounts of Heartland. All intercompany transactions have been eliminated in consolidation.

Heartland's partnership agreement provides generally that Heartland's net income (loss) will be allocated 1% to the General Partner, 98.5% to the Class A limited partners (the "Unitholders") and 0.5% to the Class B limited partner. In addition, the partnership agreement provides that certain items of deduction, loss, income and gain may be specially allocated to the Class A Unitholders or to the holder of the Class B Interest or the General Partner. Also, the partnership agreement provides that if an allocation of a net loss to a partner would cause that partner to have a negative balance in its capital account at a

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time when one or more partners would have a positive balance in their capital account such net loss shall be allocated only among partners having positive balances in their capital account.

Subject to the limitations described in the preceding paragraph, the General Partner has the discretion to cause Heartland to make distributions of Heartland's available cash in an amount equal to 98.5% to the Unitholders, 0.5% to the holder of the Class B Interest and 1% to the General Partner. Liquidating distributions, upon dissolution of the partnership, are made pro rata to each partner in accordance with its positive Capital Account balance after certain adjustments set out in the Partnership agreement. There can be no assurance as to the amount or timing of Heartland's cash distributions or whether the General Partner will cause Heartland to make a cash distribution if cash is available. On December 4, 1997, Heartland's partnership agreement was amended to allow the General Partner in its discretion to establish a record date for distributions on the last day of any calendar month. No cash distribution was made in 2001.

On August 22, 2001, Heartland announced that it had been authorized by its General Partner to purchase up to 50,000 of its outstanding Class A partnership units. As of December 31, 2001, the Company had repurchased 47,360 Class A partnership units at a total cost of \$794,000. These repurchases are shown as a reduction of Partners' Capital.

As of December 31, 2001, Heartland and CMC loaned HTI an aggregate of \$8,186,000. The loans are collateralized by a security interest in the Class B limited partner interest and bear interest at 13%. The Company has also received as compensation for the loans a Series C Warrant that entitles Heartland to purchase 320,000 shares of HTI common stock at an exercise price of \$1.05 per share. HTI and the Company have provided loans, on market terms, to each other from time to time, as provided in the agreements between them. The initial terms of the loan were based on the collateral of the Class B interest and prevailing borrowing rates. When HTI raised capital through the issuance of subordinated debentures at 13% interest and the grant of warrants, the loan terms were changed to reflect HTI's cost of capital.

At December 31, 2001, HTI owed Heartland and CMC approximately \$8,186,000. On February 25, 2002, the Company and CMC demanded immediate payment in full of all obligations due under the Line of Credit Promissory Notes from HTI. Heartland has initiated steps to protect its security interest in the Class B limited partner interest (the "Collateral"). PG Oldco, Inc., a creditor of HTI under notes aggregating \$2,200,000 in principal amount, also has a security interest in the Collateral and has commenced steps to protect its interest. Under the Lien Subordination and Inter-Creditor Agreement ("Inter-Creditor Agreement") among Heartland, CMC, PG Oldco, Inc. and HTI, Heartland and CMC have a first and prior security interest in the Collateral and the proceeds thereof up to the Senior Debt Priority Amount (as defined in the Inter-Creditor Agreement) and PG Oldco, Inc. has a first and prior security interest in the Collateral and the proceeds thereof for all amounts in excess of the Senior Debt Priority Amount. Because of the competing interests in the Collateral, Heartland is not at this time able to predict the ultimate outcome of its efforts to protect its interests in the Collateral or the effect thereof on the Class A limited partners. Nevertheless, management believes the note receivable of \$8,186,000 is recoverable through the Company's security interest in the Class B limited partner interest.

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At December 31, 2001, land held for sale consisted of approximately 13,993 acres of scattered land parcels. States in which large land holdings are located are Illinois, Iowa, Minnesota, Montana, North Dakota, South Dakota, Washington, and Wisconsin. The remaining acreage is located in Idaho, Indiana, Michigan and Missouri. Most of the properties are former railroad rights-of-way, located in rural areas, comprised of long strips of land approximately 100 feet in width. Also included in these scattered land parcels are former station grounds and rail yards. Certain air rights and fiber optics development rights are also owned. The land is typically unimproved. Some of the properties are improved with structures (such as grain elevators and sheds) erected and owned by lessees. Other properties are improved with Heartland-owned buildings that are of little or no value.

At December 31, 2001, property available for development, including housing inventories, consisted of 12 sites comprising approximately 522 acres. The book value of this land is approximately \$8,294,000 or an average of \$15,900 per acre. Heartland reviews these properties to determine whether to hold, develop, either solely or with a third party joint venture, or sell them. Heartland's objective for these properties is to maximize unitholder value over a period of years.

Heartland has a 1.23 acre site in Chicago, Illinois known as Kinzie Station Phase I that is substantially complete. Phase I consists of 163 units in a Tower and 24 units in a Plaza Building. Kinzie Station Phase II is a 1.45 acre site adjacent to Phase I on which the Company has zoning to construct a 267 unit residential tower building. Heartland is also selling and building single family homes in the Longleaf Country Club in Southern Pines, North Carolina. Heartland also owns homes and lots in Osprey Cove located in St. Marys, Georgia. These sites are classified as housing inventories. Heartland decided to cease building operations in Osprey Cove in 1999.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Heartland; CMC, its 99.99% owned operating partnership; HDC, 100% owned by Heartland; CMCLP, 1% general partnership interest owned by HDC and 99% owned by CMC; CMCI, CMCII, CMCIII, CMCIV, CMCV, CMCVI, CMCVII, CMCVIII, LCC and LCL, each 100% owned by CMC. All intercompany transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The cash and cash equivalents of the Company are held at two financial institutions.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, cash in escrow, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair values because of the short maturity of these financial instruments. The carrying value of the Company's notes payable approximate fair value at December 31, 2001 due to the short duration and variable nature of the financial instruments.

Revenue Recognition

Residential sales are recognized at closing when title to the home has passed to the buyer. The Company's homes are generally offered for sale in advance of their construction. To date, most of the Company's homes have been sold pursuant to standard sales contracts entered into prior to commencement of construction.

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The Company's standard sales contracts generally require the customer to make an earnest money deposit. This deposit may range from 5% to 10% of the purchase price for a buyer using conventional financing.

Land sales are recognized when the Company has received an adequate cash down payment and all other conditions necessary for profit recognition have been satisfied.

Investment in Joint Venture

Investment in joint venture represents recording of the Company's interest under the equity method of accounting. Under the equity method of accounting, the Company recorded its initial interest at cost and adjusts its investment accounts for additional capital contributions, distributions and its share of joint venture income or loss.

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates used in the preparation of the financial statements include the value of the Class B limited partner interest which represents the collateral of the Heartland Technology, Inc. note receivable owed to the Company and CMC, estimated costs to complete long term development projects, the recoverability of the total cost of properties and the estimates used in determining the Company's environmental liabilities. Actual results could differ from those estimates.

Properties

Properties are carried at their historical cost. Expenditures which significantly improve the values or extend useful lives of the properties are capitalized. Predevelopment costs including real estate taxes that are directly identified with a specific development project are capitalized. Interest and related debt issuance costs are capitalized to qualifying real estate inventories as incurred, in accordance with Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Costs", and charged to cost of sales as revenue from residential and land sales are recognized. Repairs and maintenance are charged to expense as incurred. Depreciation is provided for financial statement purposes over the estimated useful life of the respective assets ranging from 7 years for office equipment and fixtures to 40 years for building and improvements using the straight-line method.

Properties held for development, including capitalized predevelopment costs, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the particular development property may not be recoverable. If these events or changes in circumstances are present, the Company estimates the sum of the expected future cash flows (undiscounted) to result from the development operations and eventual disposition of the particular development property, and if less than the carrying amount of the development property, the Company will recognize an impairment loss based on discounted cash flows. Upon recognition of any impairment loss the Company would measure that loss based on the amount by which the carrying amount of the

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property exceeds the estimated fair value of the property. No event occurred during the year 2001 that resulted in an impairment loss being recognized.

For properties held for sale, an impairment loss is recognized when the fair value of the property, less the estimated cost to sell, is less than the carrying amount of the property. No event occurred during the year 2001 that resulted in an impairment loss being recognized.

Housing inventories, (including completed model homes), consisting of land, land development, direct and indirect construction costs and related interest, are recorded at cost which is not in excess of fair value. Land, land development, and indirect costs are allocated to cost of sales on the basis of units closed in relation to the total anticipated units in the related development project; such allocation approximates the relative sales value method. Direct construction costs are allocated to the specific units closed for purposes of determining costs of sales. Selling and marketing costs, not including those costs incurred related to furnishing and developing the models and sales office, are expensed in the period incurred. Costs incurred in the construction of the model units and related furnishings are capitalized at cost. The Company intends to offer these units for sale at the completion of a project and, accordingly, no amortization of direct construction costs is provided. Housing inventories are reviewed for impairment whenever events or circumstances indicate the fair value less the cost to dispose of the inventories, is less than the capitalized costs. If these events or changes in circumstances are present, the Company then writes down the inventory to its fair value. No event occurred during the year 2001 that resulted in an impairment loss being recognized.

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Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

Housing inventories consisted of the following at December 31, 2001:

Land under development.....	\$	3,487
Direct construction costs.....		4,117
Capitalized project costs.....		3,243

	\$	10,847
		=====

Income Taxes

A publicly-traded partnership generally is not liable for Federal income taxes, provided that for each taxable year at least 90% of its gross income consists of certain passive types of income. In such case, each partner includes its proportionate share of partnership income or loss in its own tax return. Accordingly, no provision for income taxes is reflected in Heartland's financial statements.

Heartland's assets are carried at historical cost. At December 31, 2001, the tax basis of the properties and improvements for Federal income tax purposes was greater than their carrying value for financial reporting purposes.

Segment Reporting

The Company has two primary reportable business segments, which consist of land

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sales and property development (See Note 10 to the Consolidated Financial Statements).

3. Restricted Cash

At December 31, 2001, CMC has a line of credit agreement in the amount of \$5,000,000 with LaSalle National Bank ("LNB") pursuant to which CMC has pledged cash in the amount of \$1,150,000 as an interest reserve. Restricted cash also includes purchasers' earnest money escrow deposits of \$46,000 at December 31, 2001. The total restricted cash at December 31, 2001 was \$1,196,000.

4. Notes Payable

At December 31, 2001, CMC has a line of credit agreement in the amount of \$5,000,000 with LNB, pursuant to which CMC pledged cash in the amount of \$1,150,000 as an interest reserve. The net worth requirement per the line of credit agreement is \$5,500,000. Heartland has pledged as additional collateral its interest in the Goose Island Joint Venture which had a carrying value of \$166,000 as of December 31, 2001. Also, pursuant to the line of credit agreement, Heartland has granted LNB a first lien on certain parcels of land in Chicago, Illinois, Milwaukee, Wisconsin and Fife, Washington which had carrying values of \$4,594,000, \$5,799,000 and \$5,063,000, respectively, at December 31, 2001. Advances against the line of credit bear interest at the prime rate of LNB plus 1.5% (6.25% at December 31, 2001). At December 31, 2001, \$3,500,000 had been advanced to the Company by LNB against the line of credit. The loan matured February 28, 2002. The Company is currently in negotiations with LNB to increase the loan amount and extend the maturity date of the revolving line of credit.

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

At Osprey Cove in St. Marys, Georgia the First National Bank of St. Marys ("FNB") in Georgia has made two loans on the two homes of \$153,000 and \$235,000 to the Company. The carrying value of these two homes was \$512,000 at December 31, 2001. The loans will mature on November 7, 2002 and July 5, 2002, respectively. The loans bear interest at 7%. At December 31, 2001, \$388,000 had been advanced to Heartland on the two loans. As of March 19, 2002, these two loans had been paid in full.

As of December 8, 2000, Heartland had obtained an agreement for a \$3,000,000 revolving line of credit for the construction of homes in Longleaf with Bank One of Illinois ("Bank One"). Also, on December 8, 2000, Heartland borrowed \$250,000 to purchase the remaining lots owned by the developer of Longleaf. This \$250,000 was the first payment related to certain liabilities assumed by the Company in accordance with a purchase agreement executed on December 12, 2000. The revolving line of credit and \$250,000 loan mature April 12, 2002 and bear interest at the prime rate (4.75% at December 31, 2001). At December 31, 2001, \$1,358,000 had been advanced by Bank One to Heartland on these two loans. The carrying value of the collateral for both these loans at December 31, 2001 is \$2,938,000. The Company is currently in negotiations with Bank One to extend the maturity dates of the revolving line of credit and \$250,000 loan.

On October 20, 1999, the Company executed loan documents with Bank One for a loan of \$5,250,000 to construct the Kinzie Station Plaza building. The loan is collateralized by real estate contained in the project. On January 30, 2001, the final principal and interest payment was made on the \$5,250,000 Kinzie Station Plaza building loan. On February 23, 2001, the Company amended this loan agreement with Bank One, and borrowed an additional \$3,000,000, of which

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\$1,500,000 remains outstanding at December 31, 2001, and changed the maturity date of the loan to February 23, 2002. Effective February 23, 2002, the maturity date of this loan was extended to June 23, 2002. The loan bears interest at the prime rate (4.75% at December 31, 2001).

During the year ended December 31, 2001, the Company incurred and paid interest on loans in the amount of \$1,028,000, of which \$837,000 was capitalized.

As of December 31, 2001, Heartland's total consolidated indebtedness was \$6,746,000. This amount is due within one year from January 1, 2002. There can be no assurance that the amounts available from internally generated funds, cash on hand, Heartland's existing credit facilities and sale of non-strategic assets will be sufficient to fund Heartland's anticipated operations. Heartland may be required to seek additional capital in the form of equity or debt financing from a variety of potential sources, including additional bank financing and sales of debt or equity securities. No assurance can be given that such financing will be available or, if available, will be on terms favorable to Heartland. If Heartland is not successful in obtaining sufficient capital to fund the implementation of its business strategy and other expenditures, development projects may be delayed or abandoned. Any such delay or abandonment could result in a reduction in sales and would adversely affect Heartland's future results of operations.

5. Recognition and Measurement of Environmental Liabilities

It is Heartland's practice to evaluate environmental liabilities associated with its properties on a regular basis. An allowance is provided with regard to potential environmental liabilities, including remediation, legal and consulting fees, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. The amount of any liability is evaluated independently from any claim for recovery. If the amount of the liability cannot be reasonably estimated but management is able to determine that the amount of the liability is likely to fall within a range, and no amount within that range can be determined to be the better estimate, then an allowance in the minimum amount of the range is established. If the Company were to use a different approach, the reserve could be materially higher. However, estimates can be affected by various uncertainties including future changes in technology, changes in regulations or requirements of local governmental authorities, third party claims, the scope and cost to be performed at each site, the portion of costs that may be shared and the timing of the remediation work. Environmental costs which are incurred in connection with Heartland's development activities are expensed or capitalized as appropriate. (See Note 8.)

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

Estimates which are used as the basis for allowances for the remediation of a particular site are taken from evaluations of the range of potential costs for that site made by independent consultants. These evaluations are estimates based on professional experience but necessarily rely on certain significant assumptions including the specific remediation standards and technologies which may be required by an environmental agency as well as the availability and cost of subcontractors and disposal alternatives. As additional information becomes available, the Company will reassess its reserves which may then be modified and related charges/credits against earnings may then be made.

At December 31, 2001, there is not sufficient information to reasonably estimate all the environmental liabilities of which management is aware. Accordingly,

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management is unable to determine whether environmental liabilities which management is unable to reasonably estimate will or will not have a material effect on Heartland's results of operations or financial condition.

6. Related Party Transactions

CMC had a management agreement with HTI, pursuant to which CMC was required to pay HTI an annual management fee in the amount of \$425,000. On October 19, 2000, this management agreement was extended from June 26, 2000 to June 27, 2005. The management fee for the year 2001 of \$425,000 was credited against amounts owed CMC. On January 7, 2002, this management agreement was assigned to HTII, the new General Partner.

Under a management services agreement, HTI reimburses Heartland for reasonable and necessary costs and expenses for services. These totaled \$837,000 for the year ended December 31, 2001. Heartland and CMC also made loans to HTI. At December 31, 2001, HTI owed the Company and CMC an aggregate of \$8,186,000 related to these expenses and loans. On December 29, 2000, HTI executed a line of credit promissory note that is due on demand, payable to Heartland and CMC in the amount of \$6,000,000. At that time, HTI granted the Company a Series C Warrant that entitles Heartland to purchase 320,000 shares of HTI common stock at an exercise price of \$1.05. The warrant is exercisable on or before February 16, 2006. As of December 31, 2001, no value has been ascribed to the warrant in the Consolidated Financial Statements. On May 11, 2001, HTI executed an additional line of credit promissory note in the amount of \$1,000,000. On July 3, 2001, the \$1,000,000 promissory note was cancelled and a replacement line of credit promissory note in the amount of \$1,500,000 was executed. On October 11, 2001, the \$1,500,000 line of credit promissory note was cancelled and a replacement line of credit promissory note in the amount of \$2,000,000 was executed. The line of credit promissory notes bear interest at 13%. The total of the two line of credit promissory notes is \$8,000,000. As collateral for these two notes, HTI Class B, LLC pledged, on December 14, 2000, to Heartland and CMC a senior lien and a senior security interest in the Heartland Class B Limited Partnership Interest owned by HTI Class B, LLC, a wholly owned subsidiary of HTI.

At December 31, 2001, HTI owed Heartland and CMC approximately \$8,186,000. On February 25, 2002, the Company and CMC demanded immediate payment in full of all obligations due under the Line of Credit Promissory Notes from HTI. Heartland has initiated steps to protect its security interest in the Class B limited partner interest (the "Collateral"). PG Oldco, Inc., a creditor of HTI under notes aggregating \$2,200,000 in principal amount, also has a security interest in the Collateral and has commenced steps to protect its interest. Under the Lien Subordination and Inter-Creditor Agreement ("Inter-Creditor Agreement") among Heartland, CMC, PG Oldco, Inc. and HTI, Heartland and CMC have a first and prior security interest in the Collateral and the proceeds thereof up to the Senior Debt Priority Amount (as defined in the Inter-Creditor Agreement) and PG Oldco, Inc. has a first and prior security interest in the Collateral and the proceeds thereof for all amounts in excess of the Senior Debt Priority Amount. Because of the competing interests in the Collateral, Heartland is not at this time able to predict the ultimate outcome of its efforts to protect its interests in the Collateral or the effect thereof on the Class A limited partners. Nevertheless, management believes the note receivable of \$8,186,000 is recoverable through the Company's security interest in the Class B limited partner interest.

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A senior partner of a law firm who provides services to the Company owns approximately 7.5% of the stock of HTI.

On March 31, 2001, the two Kinzie Station Phase I model homes (a one bedroom unit and a two bedroom unit) and furniture were purchased by two officers of the Company at fair market value. Heartland has leased these model homes back from the officers starting April 1, 2001 and ending April 1, 2004. The monthly rent on the one bedroom model is \$2,350 and on the two bedroom model is \$4,200. The leases contain standard insurance and maintenance clauses as customary in these types of leases.

7. Leases

Heartland is a lessor under numerous property operating lease arrangements with varying lease terms. The majority of the leases are cancelable by either party upon thirty to sixty days notice and provide nominal rental income to Heartland. The leases generally require the lessee to construct, maintain and remove any improvements, pay property taxes, maintain insurance and maintain the condition of the property. Heartland has a lease on a parcel of land in Chicago, Illinois which accounts for over half of Heartland's annual rental income. The land had a net carrying value of \$1,072,000 at December 31, 2001.

Heartland leases equipment under various capital and operating leases. Future minimum lease commitments under non-cancellable capital and operating leases are as follows:

	2002	2003	2004	2005	Total
	-----	-----	-----	-----	-----
Capital leases	\$ 47,000	\$ 25,000	\$ --	\$ --	\$ 72,000
Operating leases	34,000	20,000	9,000	3,000	66,000
Model home rent - two officers of Heartland	79,000	79,000	20,000	--	178,000
	-----	-----	-----	-----	-----
Total	\$ 160,000	\$ 124,000	\$ 29,000	\$ 3,000	\$ 316,000
	=====	=====	=====	=====	=====

Rent expense for the year ended December 31, 2001 was \$165,000.

8. Legal Proceedings and Contingencies

At December 31, 2001, Heartland's allowance for claims and liabilities was approximately \$4,337,000. During the year ended December 31, 2001, \$103,000 was recorded as cost and expenses in respect to environmental matters. Significant legal matters are discussed below.

Canadian Pacific Railroad Matters

The Canadian Pacific Railroad ("CPRR"), formerly the Soo Line Railroad Company, has asserted that the Company is liable for certain occupational injury claims filed after the consummation of an Asset Purchase Agreement and related agreements ("APA") by former employees now employed by the CPRR. The Company has denied liability for each of these claims based on a prior settlement with CPRR. CPRR has also asserted that the Company is liable for the remediation of releases of petroleum or other regulated materials at six different sites

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acquired from the Company located in Iowa, Minnesota and Wisconsin. The Company has denied liability based on the APA.

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

The occupational and environmental claims are all currently being handled by the CPRR, and the Company understands the CPRR has paid settlements on many of these claims. As a result of CPRR's exclusive handling of these matters, the Company has made no determination as to the merits of the claims and is unable to determine the materiality of these claims.

Tacoma, Washington

In June, 1997, the Port of Tacoma ("Port") filed a complaint in the United States District Court for the Western District of Washington alleging that the Company was liable under Washington state law for the cost of the Port's remediation of a railyard sold in 1980 by the bankruptcy trustee for the Company's predecessor to the Port's predecessor in interest.

On October 1, 1998, the Company entered into a Settlement Agreement with the Port, subsequently modified January 9, 2002 in which the Port released all claims and the Company agreed either to, (a) pay \$1,100,000 on or before December 31, 2002, plus interest quarterly from January 1, 1999, or (b) to convey to the Port real property to be agreed upon at a later date. At December 31, 2001, Heartland's allowance for claims and liabilities for this site was \$1,110,000. At December 31, 2001, interest owed to the Port had been paid to date.

The Company will not make a claim on its insurance carriers in this matter because the settlement amount does not exceed the self insured retention under the applicable insurance policies.

Wheeler Pit, Janesville, Wisconsin

In November, 1995, the Company settled an environmental claim with respect to the Wheeler Pit site near Janesville, Wisconsin. The settlement calls for the Company to pay General Motors \$800,000 at \$200,000 annually for four years, 32% of the monitoring costs for twenty-five years beginning in 1997 and 32% of governmental oversight costs; the oversight costs not to exceed \$50,000. Annual payments of \$200,000 were made in 1995, 1996, 1997 and 1998. A payment of \$50,000 for past government oversight costs was made in October, 1998. At December 31, 2001, Heartland's allowance for claims and liabilities for this site was \$212,000.

Milwaukee, Wisconsin

On December 2, 2000, the Redevelopment Authority of the City of Milwaukee ("RACM") filed suit in Milwaukee County Circuit Court to obtain access to appraise, survey and conduct environmental and geo-technical investigations on certain property owned by the Company adjacent to the Milwaukee Brewers baseball stadium in furtherance of RACM's efforts to acquire the property by condemnation. The Company and RACM entered into an agreement under which RACM will perform, at RACM's cost, limited investigations and provide the results to Heartland.

In February, 2002, the Company filed suit against the Southeast Wisconsin Professional Baseball District to enforce a provision of a contract between the District and Heartland providing for the construction of an additional two lane

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bridge to the Company's Menomonee Valley project.

As part of the Company's sale of certain property in Milwaukee, Wisconsin to the State of Wisconsin, in December, 2000, for \$1,400,000, the Company undertook to cause a lessee of part of the property to surrender its lease. By Settlement Agreement dated July 5, 2001, the lessee agreed to surrender its lease in consideration, among other things, of the payment from the Company of \$126,000. This amount was paid to the lessee in July, 2001.

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

Miscellaneous Environmental Matters

Under environmental laws, liability for hazardous substance contamination is imposed on the current owners and operators of the contaminated site, as well as the owner or the operator of the site at the time the hazardous substance were disposed or otherwise released. In most cases, this liability is imposed without regard to fault. Currently, the Company has known environmental liabilities associated with certain of its properties arising out of the activities of its predecessor or certain of its predecessor's lessees and may have further material environmental liabilities as yet unknown. The majority of the Company's known environmental liabilities stem from the use of petroleum products, such as motor oil and diesel fuel, in the operation of a railroad or in operations conducted by its predecessor's lessees. The following is a summary of material known environmental matters, in addition to those described above.

The Montana Department of Environmental Quality ("DEQ") has asserted that the Company is liable for some or all of the investigation and remediation of certain properties in Montana sold by its predecessor's reorganization trustee prior to the consummation of its predecessor's reorganization. The Company has denied liability at certain of these sites based on the reorganization bar of the Company's predecessors. The Company's potential liability for the investigation and remediation of these sites was discussed in detail at a meeting with DEQ in April, 1997. While DEQ has not formally changed its position, DEQ has not elected to file suit. Management is not able to express an opinion at this time whether the cost of the defense of this liability or the environmental exposure in the event of the Company's liability will be material.

At twelve separate sites, the Company has been notified that releases arising out of the operations of a lessee, former lessee or other third party have been reported to government agencies. At each of these sites, the third party is voluntarily cooperating with the appropriate agency by investigating the extent of any such contamination and performing the appropriate remediation, if any.

The Company has a long term monitoring program at Miles City, Montana. At December 31, 2001, Heartland's allowance for claims and liabilities for this site is \$20,000.

The Company has an interest in property at Moses Lake, Washington previously owned and used by the United States government as an Air Force base. A portion of the Company's property is located over a well field which was placed on the national priority list in October, 1992. Sampling by the Army Corps of Engineers has indicated the presence of various regulated materials, primarily in the groundwater, which were most likely released as a result of military or other third party operations. The Company has not been named as a potentially responsible party.

Heartland owns a 5.95 acre parcel in Minneapolis, Minnesota. Environmental

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sampling in 1995 disclosed that the parcel was impacted by releases of regulated materials from the 1960s operations of a former lessee. The Company continues to investigate the environmental condition of the property on a voluntary basis under the direction of the Minnesota Department of Agriculture. At December 31, 2001, Heartland's aggregate allowance for claims and liabilities for this 5.95 acre parcel in Minneapolis, Minnesota is \$2,325,000.

Sampling performed in November, 2000, has indicated the presence of solvents in the groundwater under certain property owned by the Company in Milwaukee, Wisconsin. Management will not be able to determine the materiality of the remediation costs, if any, of these materials until the concentrations and location of the release has been quantified.

In addition to the environmental matters set forth above, there may be other properties, i), with environmental liabilities not yet known to the Company, or ii), with potential environmental liabilities for which the Company has no reasonable basis to estimate or, iii), which the Company believes the Company is not reasonably likely to ultimately bear the liability, but the investigation or remediation of which may require future expenditures. Management is not able to express an opinion at this time whether the environmental expenditures for these properties will or will not be material.

The Company has given notice to its insurers of certain of the Company's environmental liabilities. Due to the high deductibles on these policies, the Company has not yet demanded that any insurer indemnify or defend the Company. Consequently, management has not formed an opinion regarding the legal sufficiency of the Company's claims for insurance coverage.

The Company is also subject to other suits and claims which have arisen in the ordinary course of business. In the opinion of management, these matters should not be material to the Company's results of operations or financial condition.

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Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

9. Compensation and Benefits

Heartland sponsors a Group Savings Plan, which is a salary reduction plan qualified under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986. All full-time permanent employees of Heartland are eligible to participate in the plan. A participating employee can authorize contributions to the plan in the form of salary reductions of up to the maximum allowed by the Internal Revenue Code in any plan year. In 2001, Heartland made matching contributions of 25% of each participant's contribution to the plan. Participating 1998 employees were fully vested with respect to salary reduction and Heartland's contributions. For all future participants, they are fully vested with respect to salary reduction immediately, but the matching contribution vests at 20% per year. Benefits are normally distributed upon retirement (on or after age 65), death or termination of employment, but may be distributed prior to termination of employment upon showing of financial hardship. Heartland contributed to the plan approximately \$30,000 in 2001 on behalf of all employees.

Under an agreement with Edwin Jacobson as the President and Chief Executive Officer of CMC he was entitled to receive commencing January 1, 2000 and continuing thereafter during the time he was employed incentive payments equal to 1/2% of the net proceeds from sales of certain real estate after deducting any debt obligations, closing costs and any real estate brokers commission. For the twelve months ended December 31, 2001, \$96,000 had been accrued as

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compensation expense under this plan. As of December 31, 2001, \$113,000 had been paid to the President and Chief Executive Officer by CMC. On October 18, 2000, the President and Chief Executive Officer of CMC borrowed \$375,000 from CMC, of which \$330,000 remains outstanding at December 31, 2001 and is included as part of accounts receivable at December 31, 2001. The note is due October 17, 2005, and interest is payable quarterly at the rate of 11% per year. On October 17, 2000, an amendment to the employment agreement authorized CMC to deduct from any incentive payment made to him 40% of that payment and apply it to his outstanding note due to CMC. As a result of this amendment, \$45,000 of the above described payment of \$113,000 was applied to the outstanding note balance. On February 25, 2002, Edwin Jacobson retired as the President and Chief Executive Officer of CMC.

Effective January 1, 2000, the Company approved the CMC Heartland Partners Incentive Plan ("CMC Plan") and the Sales Incentive Plan ("Sales Plan") to provide incentives to attract, retain or motivate highly competent employees of the Company. The aggregate benefits payable under the CMC Plan shall be computed by multiplying the following percentages (3% for 2001, 2% for the year 2002 and 1% for the year 2003) by the net proceeds from the sale of certain land parcels during those years. The aggregate benefits payable under the Sales Plan shall be computed by multiplying 3% for the year 2001 by the net proceeds from the sale of certain real estate during that year. For the twelve months ended December 31, 2001, \$440,000 had been accrued as compensation expense under the plans. As of December 31, 2001, \$267,000 had been paid to the officers by the Company.

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Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

10. Reportable Segments

The following tables set forth the reconciliation of net income and total assets for Heartland's reportable segments for the year ended December 31, 2001 (See Note 2 to the Consolidated Financial Statements).

2001 (amounts in thousands)	Land Sales (1)	Property Development (2)	Corporate (3)
Revenues:			
Property sales	\$ 1,031	\$ 29,440	\$ 0
Less: Cost of property sales	182	19,726	0
Gross profit on property sales	849	9,714	0
Operating expenses:			
Selling expenses	700	3,221	0
General and administrative expenses	0	0	1,888
Real estate taxes	115	110	0
Environmental expense	103	0	0
Total operating expenses	918	3,331	1,888

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Net operating income (loss)	(69)	6,383	(1,888)
Other Income and (Expenses):			
Portfolio income	0	0	1,176
Rental income	378	0	0
Other income	0	122	0
Depreciation	(10)	(245)	(64)
Management fee	0	0	(425)

Total other income and (expenses)	368	(123)	687

Net income (loss)	\$ 299	\$ 6,260	\$ (1,201)
=====			
Properties, net of accumulated Depreciation	\$ 723	\$ 27,114	\$ 364
=====			
Total assets	\$ 1,153	\$ 27,567	\$ 9,700
=====			

- (1) The Land Sales business segment consists of approximately 13,993 acres of land located throughout 12 states for sale as of December 31, 2001, and the related rentals, sales and marketing and operating expenses.
- (2) The Property Development business segment consists of approximately 522 acres representing 12 sites that Heartland is in the process of developing or homebuilding communities in which the Company is currently selling and building homes on lots it owns. The related selling and operating expenses are also reported for this business segment.
- (3) The Corporate level consist of portfolio income from investments, salaries and general and administrative expenses for the employees and occupied commercial office space in Kinzie Station Phase I located in Chicago, Illinois.

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SCHEDULE II

HEARTLAND PARTNERS, L.P.
VALUATION AND QUALIFYING ACCOUNTS
For The Year Ended December 31, 2001
(amounts in thousands)

Description	Balance at Beginning of year	Additions charged to costs and expenses	Payments	Balance at end of year
-----	-----	-----	-----	-----
Allowance for claims and liabilities	\$ 4,478	\$ 103	\$ (244)	\$ 4,337
	=====	=====	=====	=====

SCHEDULE III
HEARTLAND PARTNERS, L.P.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2001
(amounts in thousands)

Description Land, Buildings and Other	Initial Cost to Heartland		Cost Capitalized Subsequent to Acquisition (1)		Land
	Land	Buildings & Improvements	Improvements (3)	Carrying Costs (4)	
Chicago, IL (6)	\$ 661	\$ --	\$ 142	\$ 269	\$
Corporate and other (5)	--	--	1,630	--	
TOTAL	\$ 661	\$ --	\$ 1,772	\$ 269	\$

Description Land, Buildings and Other	Accumulated Depreciation	Date of Completion of Construction	Date Acquired	Life on Which Depreciation In Latest Income Statement Is Computed
Chicago, IL (6)	\$ --	Various	Various	(2)
Corporate and other	1,144	Various	Various	(2)
TOTAL	\$ 1,144			

- (1) See Attachment A to Schedule III for reconciliation of beginning of period total to total at end of period.
- (2) Reference is made to Note 2 to the Consolidated Financial Statements for information related to depreciation.
- (3) Improvements include all costs which increase the net realizable value of the property except carrying costs.
- (4) Carrying costs consists primarily of legal fees, real estate taxes and interest.

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- (5) This amount includes furniture, equipment and other fixed assets that are included in Land, buildings and other on the Consolidated Balance Sheet.
- (6) Includes a parcel of land encumbered by a \$5,000,000 short term loan (See Note 4 to the Consolidated Financial Statements).

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HEARTLAND PARTNERS, L.P.
ATTACHMENT A TO SCHEDULE III
RECONCILIATION OF COST OF REAL ESTATE AT BEGINNING
OF YEAR WITH TOTAL AT END OF YEAR
DECEMBER 31, 2001
(amounts in thousands)

		2001

Balance at January 1	\$	2,683

Additions during year:		
Other acquisitions		19

Total additions		19

Deductions during year:		
Cost of real estate sold		--

Total deductions		--

Balance at December 31	\$	2,702
		=====

Reconciliation of Real Estate Accumulated Depreciation
At Beginning of Year with Total at End of Year
(amounts in thousands)

		2001

Balance at January 1	\$	137

Additions during year:		
Charged to expense		319
Write off Kinzie Station fixed assets		688

Total additions		1,007

Deductions during year:		
Cost of real estate sold		--

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Total deductions	----- -- -----
Balance at December 31	1,144 =====

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REPORT OF INDEPENDENT AUDITORS

To the Partners and Unitholders of Heartland Partners, L.P.

We have audited the accompanying consolidated balance sheets of Heartland Partners, L.P. (the "Partnership") as of December 31, 2000 and 1999 and the related consolidated statements of operations, partners' capital and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Heartland Partners, L.P. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Ernst & Young LLP

Chicago, Illinois
March 18, 2001, except as to the second
paragraph of Note 11, as to which the date
is March 28, 2001.

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HEARTLAND PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
December 31, 2000 and 1999
(amounts in thousands)

ASSETS:		
Cash	\$ 150	\$ 230
Restricted cash	2,699	4,182
Accounts receivable (net of allowance of \$416 in 2000 and 1999)	582	373
Due from affiliate	4,581	1,093
Prepaid and other assets	279	217
Investment in joint venture	377	410
	-----	-----
Total	8,668	6,505
	-----	-----
Property:		
Land, buildings and other	2,683	4,049
Less accumulated depreciation	137	1,065
	-----	-----
Net land, buildings and other	2,546	2,984
Land held for sale	740	766
Housing inventories	20,354	34,263
Land held for development	5,497	5,287
Capitalized predevelopment costs	9,779	7,451
	-----	-----
Net Properties	38,916	50,751
	-----	-----
Total Assets	\$ 47,584	\$ 57,256
	=====	=====
LIABILITIES:		
Notes payable	\$ 14,675	\$ 32,770
Accounts payable and accrued expenses	7,267	10,330
Accrued real estate taxes	776	893
Allowance for claims and liabilities	4,478	2,804
Unearned rents and deferred income	1,632	1,733
Other liabilities	3,260	3,074
	-----	-----
Total Liabilities	\$ 32,088	\$ 51,604
	-----	-----
PARTNERS' CAPITAL:		
General Partner	27	--
Class A Limited Partners - 2,142 units authorized, issued and outstanding	5,906	--
Class B Limited Partner	9,563	5,652
	-----	-----
Total Partners' Capital	15,496	5,652
	-----	-----
Total Liabilities and Partners' Capital	\$ 47,584	\$ 57,256
	=====	=====

See accompanying notes to Consolidated Financial Statements

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HEARTLAND PARTNERS, L.P.
 CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
 For the Years Ended December 31, 2000, 1999, and 1998
 (amounts in thousands)

	General Partner	Class A Limited Partners	Class B Limited Partner	Unrealized Holding Gain (Loss) on Marketable Securities
	-----	-----	-----	-----
Balances at January 1, 1998	\$ 28	\$ 5,902	\$ 9,563	\$ (
Net loss	(28)	(5,902)	(154)	-
Marketable securities fair value adjustment	--	--	--	--
Balances at December 31, 1998	\$ --	\$ --	\$ 9,409	\$ -
Net Loss	--	--	(3,757)	-
Balances at December 31, 1999	\$ --	\$ --	\$ 5,652	\$ -
Net income	27	5,906	3,911	-
Balances at December 31, 2000	\$ 27	\$ 5,906	\$ 9,563	\$ -
	=====	=====	=====	=====

See accompanying notes to Consolidated Financial Statements

HEARTLAND PARTNERS, L.P.
 CONSOLIDATED STATEMENTS OF OPERATIONS
 For the Years Ended December 31, 2000, 1999 and 1998
 (amounts in thousands, except for per unit data)

	2000	1999	1998
	-----	-----	-----
Income:			
Property sales	\$ 61,009	\$ 11,548	\$ 6,231
Less: Cost of property sales	45,612	9,772	4,405

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	-----	-----	-----
Gross profit on property sales	15,397	1,776	1,826
	-----	-----	-----
Operating Expenses:			
Selling expenses	2,700	3,570	3,845
General and administrative expenses	2,359	2,659	3,119
Real estate taxes	67	179	399
Environmental expense	1,835	378	1,461
	-----	-----	-----
Total operating expenses	6,961	6,786	8,824
	-----	-----	-----
Operating income (loss)	8,436	(5,010)	(6,998)
Other Income and (Expense):			
Portfolio income	390	123	63
Rental income	743	772	886
Other income	970	917	514
Depreciation	(270)	(134)	(124)
Management fee	(425)	(425)	(425)
	-----	-----	-----
Total other income and (expense)	1,408	1,253	914
	-----	-----	-----
Net income (loss)	\$ 9,844	\$ (3,757)	\$ (6,084)
	=====	=====	=====
Net income (loss) allocated to General Partner ...	\$ 27	\$ --	\$ (28)
	=====	=====	=====
Net income (loss) allocated to Class B limited partner	\$ 3,911	\$ (3,757)	\$ (154)
	=====	=====	=====
Net income (loss) allocated to Class A limited partners	\$ 5,906	\$ --	\$ 5,902)
	=====	=====	=====
Net income (loss) per Class A limited partnership unit	\$ 2.76	\$ --	\$ (2.76)
	=====	=====	=====
Average number of Class A limited partnership units outstanding	\$ 2,142	\$ 2,142	\$ 2,142
	=====	=====	=====

See accompanying notes to Consolidated Financial Statements

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HEARTLAND PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2000, 1999, and 1998
(amounts in thousands)

	2000	1999	1998
	-----	-----	-----
Cash Flow from Operating Activities:			
Net income (loss)	\$ 9,844	\$ (3,757)	\$ (6,084)

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Adjustments reconciling net income (loss) to net cash provided by (used in) operating activities:

Bad debt expense	--	--	211
Depreciation	270	134	124
Net change in allowance for claims and liabilities	1,674	42	593
Net change in assets and liabilities:			
(Increase) decrease in accounts receivable	(209)	(20)	129
Increase in due from affiliate	(3,488)	(651)	(442)
Decrease (increase) in housing inventories	13,909	(20,285)	(4,852)
Decrease in land held for sale	26	164	233
(Increase) decrease in land held for development	(210)	203	790
Increase in capitalized predevelopment costs	(2,328)	(2,429)	(818)
(Decrease) increase in accounts payable and accrued liabilities	(3,063)	7,694	1,895
Decrease in management fee due affiliate	--	(283)	(142)
Net change in other assets and liabilities	(61)	980	1,656
	-----	-----	-----
Net cash provided by (used in) operating activities	16,364	(18,208)	(6,707)
	-----	-----	-----
Cash Flow from Investing Activities:			
Sales of (additions to) land, buildings and other, net	168	(486)	(333)
Net sales and maturities (purchases) of marketable securities	--	149	(6)
	-----	-----	-----
Net cash provided by (used in) investing activities	168	(337)	(339)
	-----	-----	-----
Cash Flow from Financing Activities:			
(Payoffs) advances on notes payable, net	(18,095)	19,278	9,742
Decrease (increase) in restricted cash	1,483	(1,618)	(1,840)
Distribution paid to unitholders	--	--	(1,631)
	-----	-----	-----
Net cash (used in) provided by financing activities .	(16,612)	17,660	6,271
	-----	-----	-----
Net decrease in cash	(80)	(885)	(775)
Cash at beginning of year	230	1,115	1,890
	-----	-----	-----
Cash at end of year	\$ 150	\$ 230	\$ 1,115
	=====	=====	=====
Supplemental Disclosure of Non Cash Operating Activities:			
Net land held for development and capitalized predevelopment costs transferred to housing inventories	\$ --	\$ --	\$ 5,034
	=====	=====	=====

See accompanying notes to Consolidated Financial Statements

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Heartland Partners, L.P. ("Heartland" or the "Company"), a Delaware limited partnership, was formed on October 6, 1988. Heartland's existence will continue until December 31, 2065, unless extended or dissolved pursuant to the provisions of Heartland's partnership agreement.

Heartland was organized to engage in the ownership, purchasing, development, leasing, marketing, construction and sale of real estate properties. CMC Heartland Partners ("CMC") is an operating general partnership owned 99.99% by Heartland and .01% by Heartland Technology, Inc. ("HTI"), formerly known as Milwaukee Land Company ("MLC"). HTI is the general partner of Heartland (in such capacity, the "General Partner"). In July, 1993, Heartland Development Corporation ("HDC"), a Delaware corporation, wholly-owned by Heartland and CMC, formed CMC Heartland Partners I, Limited Partnership ("CMCI"), a Delaware limited partnership, to undertake a planned housing development in Rosemount, Minnesota ("Bloomfield or Rosemount"). CMC has a 100% membership interest in CMC Heartland Partners II ("CMCII"), CMC Heartland Partners III ("CMCIII"), CMC Heartland Partners IV ("CMCIV"), CMC Heartland Partners V ("CMCV"), CMC Heartland Partners VI ("CMCVI"), CMC Heartland Partners VII ("CMCVII") and CMC Heartland Partners VIII ("CMCVIII"). CMCII was formed to participate in the Goose Island Industrial Park joint venture in Chicago, Illinois. CMCIII was formed in 1997 to develop a portion of the Kinzie Station property in Chicago, IL. CMC IV was formed in 1998 and is developing approximately 177 acres in Fife, Washington. CMCV was formed in 1996 to acquire finished lots, sell and construct homes in Osprey Cove ("Osprey"), a master-planned residential community in St. Marys, GA. CMCVII was formed in 1998 to acquire and engage in sales, marketing and construction of homes in the Longleaf Country Club, Southern Pines, NC ("Southern Pines or Longleaf"). CMCVI and CMCVIII were formed at various times to acquire and hold future acquisitions. CMC also owns 100% of the common stock of Lifestyle Communities, Ltd. ("LCL") which serves as the exclusive sales agent in the St. Marys, Southern Pines and Kinzie Station developments. LCL is also the general contractor in the St. Marys development. CMC owns 100% of the stock of Lifestyle Construction Company, Inc. ("LCC") which serves as the general contractor in North Carolina. Except as otherwise noted herein, references herein to "Heartland" or the "Company" include CMC, HDC, CMCI, CMCII, CMCIII, CMCIV, CMCV, CMCVI, CMCVII, CMCVIII, LCL and LCC.

Heartland's partnership agreement provides generally that Heartland's net income (loss) will be allocated 1% to the General Partner, 98.5% to the Class A limited partners (the "Unitholders") and 0.5% to the Class B limited partner. In addition, the partnership agreement provides that certain items of deduction, loss, income and gain may be specially allocated to the Class A Unitholders or to the holder of the Class B Interest or the General Partner. Also, the partnership agreement provides that if an allocation of a net loss to a partner would cause that partner to have a negative balance in its capital account at a time when one or more partners would have a positive balance in their capital account such net loss shall be allocated only among partners having positive balances in their capital account.

The General Partner has the discretion to cause Heartland to make distributions of Heartland's available cash in an amount equal to 98.5% to the Unitholders, 0.5% to the holder of the Class B Interest and 1% to the General Partner. There can be no assurance as to the amount or timing of Heartland's cash distributions or whether the General Partner will cause Heartland to make a cash distribution if cash is available. On November 24, 1997, Heartland declared a cash distribution in the amount of \$1.6 million to Unitholders and Partners of record on December 29, 1997, that was paid on January 7, 1998. On December 4, 1997, Heartland's partnership agreement was amended to allow the General Partner in its discretion to establish a record date for distributions on the last day of any calendar month.

Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

At December 31, 2000, land held for sale consisted of approximately 14,249 acres of scattered land parcels. States in which large land holdings are located are Illinois, Iowa, Minnesota, Montana, North Dakota, South Dakota, Washington, and Wisconsin. The remaining acreage is located in Idaho, Indiana, Michigan and Missouri.

Most of the properties are former railroad rights-of-way, located in rural areas, comprised of long strips of land approximately 100 feet in width. Also included are former station grounds and rail yards. Certain air rights and fiber optics development rights are also owned.

The land is typically unimproved. Some of the properties are improved with structures (such as grain elevators and sheds) erected and owned by lessees. Other properties are improved with Heartland-owned buildings that are of little or no value.

Improved properties of value to Heartland were a three-story office building with 60,000 square feet of space in Milwaukee, Wisconsin and a two-story warehouse/office building in northwestern Chicago used for the storage of partnership records. These improved properties and land were sold and closed during the year 2000.

At December 31, 2000, property available for development, including housing inventories, consisted of 14 sites comprising approximately 776 acres. The book value of this land is approximately \$10.7 million or an average of \$13,800 per acre. Heartland reviews these properties to determine whether to hold, develop, either solely or with a third party joint venturer, or sell them. Heartland's objective for these properties is to maximize unitholder value over a period of years.

Heartland has a 1.23 acre site in Chicago, Illinois known as Kinzie Station Phase I under development. Phase I consists of 163 units in a Tower, 24 units in a Plaza Building and 5 Townhomes. Kinzie Station Phase II is a 2.65 acre site adjacent to Phase I on which the Company intends to construct 242 units in a Tower and 8 Townhomes. The Company is also selling and building single family homes in the Longleaf Country Club in Southern Pines, North Carolina. Heartland also owns homes and lots in Osprey Cove located in St. Marys, Georgia as well as undeveloped acreage in the Bloomfield community in Rosemount, Minnesota. These sites, except Bloomfield, are classified as housing inventories. Heartland decided to cease building operations in Osprey Cove and Bloomfield in 1999. The homes, lot inventories, and undeveloped acreage will be sold in the ordinary course of business.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Heartland; CMC, its 99.99% owned operating partnership; HDC, 100% owned by Heartland; CMCI, 1% general partnership interest owned by HDC and 99% owned by CMC; CMCII, CMCIII, CMCIV, CMCV, CMCVI, CMCVII, CMCVIII, LCL and LCC, each 100% owned by CMC. All intercompany transactions have been eliminated in consolidation.

Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

Revenue Recognition

Revenues from housing and land sales are recognized in the period in which title passes and cash is received.

Investment in Joint Venture

Investment in joint venture represents recording of the Company's interest under the equity method of accounting. Under the equity method of accounting, the Company recorded its initial interest at cost and adjusts its investment accounts for additional capital contributions, distributions and its share of joint venture income or loss.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Properties

Properties are carried at their historical cost. Expenditures which significantly improve the values or extend useful lives of the properties are capitalized. Predevelopment costs including interest, financing fees, and real estate taxes that are directly identified with a specific development project are capitalized. Repairs and maintenance are charged to expense as incurred. Depreciation is provided for financial statement purposes over the estimated useful life of the respective assets ranging from 7 years for office equipment and fixtures to 40 years for building and improvements primarily using the straight-line method.

Properties held for development, including capitalized predevelopment costs, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the particular development property may not be recoverable. If these events or changes in circumstances are present, the Company estimates the sum of the expected future cash flows (undiscounted) to result from the development operations and eventual disposition of the particular development property, and if less than the carrying amount of the development property, the Company will recognize an impairment loss based on discounted cash flows. Upon recognition of any impairment loss the Company would measure that loss based on the amount by which the carrying amount of the property exceeds the estimated fair value of the property.

For properties held for sale, an impairment loss is recognized when the fair value of the property, less the estimated cost to sell, is less than the carrying amount of the property.

Housing inventories, (including completed model homes), consisting of land, land development, direct and indirect construction costs and related

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interest, are recorded at cost which is not in excess of fair value. Land, land development, and indirect costs are allocated to cost of sales on the basis of units sold in relation to the total anticipated units in the related development project; such allocation approximates the relative sales value method. Direct construction costs are allocated to the specific units sold for purposes of determining costs of sales. Selling and marketing costs, not including those costs incurred related to furnishing and developing the models and sales office, are expensed in the period incurred. Costs incurred in the construction of the model units and related furnishings are capitalized at cost. The Company intends to offer these units for sale at the completion of a project and, accordingly, no amortization of direct construction costs is provided. Housing inventories are reviewed for impairment whenever events or circumstances indicate the fair value less the cost to dispose of the inventories, is less than the capitalized costs. If these events or changes in circumstances are present, the Company then writes down the inventory to its fair value.

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

Housing inventories consisted of the following at December 31, 2000, and 1999:

	2000	1999
	-----	-----
Land under development.....	\$ 5,240	\$ 4,690
Direct construction costs.....	10,892	19,381
Capitalized project costs.....	4,222	10,192
	-----	-----
	\$ 20,354	\$ 34,263
	=====	=====

Fair Value of Financial Instruments

For cash and cash equivalents, the carrying amounts approximate fair value. For variable rate debt that reprices frequently, fair values approximate carrying values. For all remaining financial instruments, carrying value approximates fair value due to the relatively short maturity of these instruments.

Income Taxes

A publicly-traded partnership generally is not liable for Federal income taxes, provided that for each taxable year at least 90% of its gross income consists of certain passive types of income. In such case, each partner includes its proportionate share of partnership income or loss in its own tax return. Accordingly, no provision for income taxes is reflected in Heartland's financial statements.

Heartland's assets are carried at historical cost. At December 31, 2000, the tax basis of the properties and improvements for Federal income tax purposes was greater than their carrying value for financial reporting purposes.

Segment Reporting

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The Company has two primary reportable business segments, which consist of land sales and property development (See Note 10 to the Consolidated Financial Statements).

Reclassification

Certain reclassifications have been made to the previously reported 1999 and 1998 statements in order to provide comparability with the 2000 statements. These reclassifications have not changed the 1999 and 1998 results.

3. Restricted Cash

On May 14, 1997, CMC established a line of credit agreement in the amount of \$5 million with LaSalle National Bank ("LNB") pursuant to which CMC pledged cash in the amount of \$500,000 as an interest reserve. During 1998, LNB increased the line of credit to \$8.5 million and extended the maturity date of the loan to April 30, 1999, pursuant to which CMC pledged additional cash in the amount of \$350,000 as an interest reserve. In April, 1999, LNB increased the credit facility to \$11,500,000 and extended the maturity date of the loan to April 29, 2000. At that time, CMC pledged an additional \$300,000 as an interest reserve. On November 30, 1998, CMCI executed an agreement for a \$2,500,000 loan with Bank One relating to the Bloomfield project pursuant to which CMCI has pledged \$500,000 in cash as an interest reserve. On October 4, 2000, the developed acreage in the Bloomfield project was sold and this \$500,000 was released. Restricted cash also includes purchasers' earnest money escrow deposits of \$1,549,000 and \$2,522,000 at December 31, 2000, and 1999, respectively and a \$10,000 construction improvement bond held by the Osprey Cove Homeowners Association that was released in the year 2000. The total restricted cash at December 31, 2000, and 1999, was \$2,699,000 and \$4,182,000, respectively.

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Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

4. Notes Payable

On May 14, 1997, CMC signed a line of credit agreement in the amount of \$5 million with LaSalle National Bank ("LNB"), pursuant to which CMC granted LNB a first lien on certain parcels of land in Chicago, IL which had a carrying value of \$2,706,000 and \$6,065,000 as of December 31, 2000, and 1999, respectively. Also, pursuant to the line of credit agreement, CMC pledged cash in the amount of \$500,000 as an interest reserve. The agreement terminated on May 1, 1998, but was extended through June 30, 1998. On June 30, 1998, the loan was amended extending the maturity date to April 30, 1999, and increasing the line to \$8.5 million. The Company has subsequently pledged additional cash in the amount of \$350,000 bringing the total interest reserve to \$850,000. On October 23, 1998, CMC amended the loan temporarily increasing the line to \$9,500,000 and reducing net worth requirements to \$8,500,000. The \$1,000,000 temporary increase was paid back in December, 1998. In April, 1999, the Company extended the maturity of the loan to April 29, 2000, increased the amount of the credit facility from \$8,500,000 to \$11,500,000, reduced the net worth requirement from \$8,500,000 to \$5,500,000 and granted LNB a first lien on a property in Milwaukee, Wisconsin which had a carrying value of \$4,108,000 and \$3,035,000 at December 31, 2000, and 1999, respectively. The Company has subsequently

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pledged additional cash in the amount of \$300,000 bringing the total interest reserve to \$1,150,000. In November, 1999, the Company increased the amount of the credit facility to \$13,300,000 and pledged as additional collateral its interest in the Goose Island Joint Venture which had a carrying value of \$377,000 and \$410,000 as of December 31, 2000, and 1999, respectively. On March 20, 2000, the Company executed documents with LNB that increased the credit facility to \$15,300,000 and extended the maturity date of the loan to December 31, 2000. Heartland also granted LNB a first lien on 177 acres, located in Fife, Washington which had a carrying value of \$4,514,000 and \$3,891,000 at December 31, 2000, and 1999, respectively. On June 29, 2000, Heartland closed on a parcel of land it owned at Kinzie Station in Chicago, Illinois at a sales price of \$2,457,000. At that time, \$1,800,000 of the sales proceeds was used to permanently reduce the line of credit amount from \$15.3 million to \$13.5 million. On August 3, 2000, the Company closed on the last parcel of land it owned at Galewood in Chicago, Illinois at a sales price of \$5,500,000. At that time, \$3,500,000 of the sales proceeds was used to permanently reduce the line of credit amount from \$13.5 million to \$10 million. On October 15, 2000, LNB increased the line of credit agreement amount from \$10,000,000 to \$11,000,000. On December 31, 2000, the Company executed an amendment to the LNB line of credit that extended the maturity date to March 31, 2001 and required the permanent reduction in the principal amount of the line to \$9,600,000 on February 28, 2001 and to \$8,100,000 on March 28, 2001. Advances against the line of credit bear interest at the prime rate of LNB plus 1.5% (11.0% at December 31, 2000). At December 31, 2000, and 1999, \$9,000,000 and \$11,800,000, respectively, had been advanced to the Company by LNB against the line of credit. The Company is currently in negotiations with LNB to extend the maturity date of the revolving line of credit. While the Company has no reason to believe the extension of the credit facility will not be approved by LNB, there can be no assurance the contemplated extension will be given. The consolidated financial statements do not contain any adjustments to reflect the ultimate outcome of this uncertainty.

On December 30, 1996, CMCV signed a revolving line of credit agreement in the amount of \$3 million with Bank of America ("B of A"), formerly NationsBank, N.A., to acquire lots and construct homes in the Osprey Cove subdivision, St. Marys, Georgia, pursuant to which CMC granted a first mortgage to B of A on specific lots in said subdivision with a carrying value of \$1,803,000 at December 31, 1999. On December 30, 1999, Heartland entered into a modification agreement to its December 30, 1996, revolving line of credit agreement in the amount of \$3 million for Osprey Cove to extend the maturity date to June 30, 2000. At December 31, 1999, B of A had advanced \$1,514,000 against the revolving line of credit. During the year 2000, the Company paid off the line of credit in full. All lots securing the line of credit were released. The Company has one loan outstanding with B of A in the amount of \$209,000. The carrying value of the home is \$257,000 at December 31, 2000. This loan bears interest at the prime rate of B of A plus 1% (10.5% at December 31, 2000). At December 31, 2000, \$179,000 had been advanced by B of A against the loan. This loan matured September 29, 2000. The Company refinanced this loan on January 5, 2001 with the First National Bank of St. Marys ("FNB") in Georgia. The amount advanced by FNB was \$235,000. The loan matures January 5, 2002 and bears interest at the three month London Interbank Offering Rate ("LIBOR") plus 3.85%.

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In the fourth quarter of 1999, FNB made two loans totaling \$588,374 to build two inventory homes in Osprey Cove. The carrying value of these two homes was \$557,000 at December 31, 1999. FNB had advanced \$463,000 on these two loans at December 31, 1999. The loan terms were for one year and bear interest at the LIBOR rate plus 3.35% (9.8% at December 31, 2000). One home sold and closed in May, 2000. At December 31, 2000, FNB had advanced \$172,000 to the Company on the one remaining loan. The carrying value of this home was \$211,000 at December 31, 2000. This loan was renewed on December 12, 2000 and will be due on October 12, 2001.

In December, 1998, the Company signed a commitment letter for a \$3,000,000 line of credit with B of A to finance the construction of homes in the Longleaf community. B of A provided individual loans on each home as construction commenced. The developer subordinated its lot to B of A's construction loan. The term of each loan was one year and interest accrued at the B of A prime rate plus 1%. On December 9, 1999, Heartland executed an agreement for a \$5,000,000 revolving credit line for the construction of homes in Longleaf with Bank One of Illinois ("Bank One"). The first draw from Bank One on December 9, 1999 was used to purchase 22 lots (of which 3 closed in 1999 and 13 closed in 2000) from the developer for \$690,500 and repaid B of A all outstanding principal and accrued interest. As new homes to be built were added to the revolving credit line, the developer would subordinate its lot to Bank One's revolving credit line. On December 12, 2000, Heartland executed a purchase agreement whereby it purchased the balance of lots owned by the developer, 207 lots, by the assumption of certain liabilities owed by the developer to other unrelated parties and the payment of \$250,000. The purchase price of \$2,209,000, which includes the \$250,000 paid on December 12, 2000, for these 207 lots was determined by calculating the net present value of the payments to be paid over a ten year period using a discount rate of 10%. Also, per the purchase agreement, the Company is obligated to pay the developer 49% of the Net Cash Flow, as defined, each year for the period January 1, 2001 to December 31, 2005. As part of the December 8, 2000 loan amendment described below, the Company borrowed \$250,000 on December 12, 2000 from Bank One to purchase these lots, which remains outstanding at December 31, 2000. This note is due April 12, 2001 and bears interest at the prime rate (9.5% at December 31, 2000). The revolving credit line is for a term of 1 year and bears interest at the prime rate (9.5% at December 31, 2000). On December 8, 2000, Heartland executed an amendment to the Bank One loan that extended the maturity date of the line of credit to April 12, 2001 and reduced the maximum revolving credit line from \$5,000,000 to \$3,000,000. At December 31, 2000, and 1999, \$1,383,000 and \$1,441,000, respectively, had been advanced on the line of credit by Bank One to the Company. The carrying value of the collateral for both these loans at December 31, 2000, and 1999, is \$3,577,000 and \$1,815,000, respectively.

On November 30, 1998, Heartland executed an agreement for a \$2,500,000 loan from Bank One relating to the Bloomfield project. As a condition of the loan, \$500,000 was placed in an interest reserve. The loan has a two year term and bears interest at the prime rate (9.5% at December 31, 2000). On December 1, 2000, this loan was extended and will mature April 1, 2001. Also, the principal balance was reduced to \$450,000. The outstanding loan balance is \$450,000 and \$2,470,000 at December 31, 2000, and 1999, respectively. In addition, Bank One was providing a \$1,750,000 development loan, letters of credit for \$204,500 to the City of Rosemount and a \$4,000,000 revolving credit line for the construction of homes; these credit facilities were executed on February 1, 1999. At December 31, 1999, \$506,000 had been advanced against the development loan and \$1,175,000 against the revolving line of credit. The loans bear interest at the prime rate (9.5% at December 31, 2000). The loans were to mature on January 31, 2001 and December 31, 2000, respectively. The Company closed on the sale of all of its developed acreage in Bloomfield on October 4, 2000 and paid off the development loan

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and line of credit at that time. The total outstanding Bank One debt was reduced to \$450,000. Also, the Bank One \$500,000 interest reserve and all letters of credit were released. The carrying value of the collateral for these loans is \$3,000,000 and \$4,302,000 at December 31, 2000, and 1999, respectively.

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

On January 6, 1999, the Kinzie Station 2.5 year loan agreement in the amount of \$29,812,000 was signed with Corus Bank N.A ("CB"). The loan bears interest at the prime rate plus 1% (10.5% at December 31, 2000). This loan is collateralized by the real estate contained in the project. In conjunction with the loan, a Construction Contract with the guaranteed maximum price of \$24,710,000 was entered into with a general contractor. At December 31, 2000, the outstanding loan balance of the CB loan was \$3,123,000. At December 31, 1999, \$13,287,000 had been advanced by CB to the Company.

On October 20, 1999, the Company executed loan documents with Bank One for a loan of \$5,250,000 to construct the Kinzie Station Plaza building. The loan is for a term of 3 years and bears interest at the prime rate (9.5% at December 31, 2000). The loan is collateralized by real estate contained in the project. On September 7, 1999, a construction contract with the guaranteed maximum price of \$4,864,022 was entered into with a general contractor. At December 31, 2000, the outstanding loan balance of the Bank One loan was \$118,000. At December 31, 1999, \$114,000 had been advanced by Bank One to the Company.

During the years ended December 31, 2000, 1999, and 1998, the Company incurred and paid interest on loans in the amount of \$3,362,000, \$2,062,000 and \$802,000, respectively, of which \$3,354,000, \$2,062,000, and \$802,000 was capitalized.

5. Recognition and Measurement of Environmental Liabilities

It is Heartland's practice to evaluate environmental liabilities associated with its properties on a regular basis. An allowance is provided with regard to potential environmental liabilities, including remediation, legal and consulting fees, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. The amount of any liability is evaluated independently from any claim for recovery. If the amount of the liability cannot be reasonably estimated but management is able to determine that the amount of the liability is likely to fall within a range, and no amount within that range can be determined to be the better estimate, then an allowance in the minimum amount of the range is established. Environmental costs which are incurred in connection with Heartland's development activities are expensed or capitalized as appropriate. (See Note 8.)

Estimates which are used as the basis for allowances for the remediation of a particular site are taken from evaluations of the range of potential costs for that site made by independent consultants. These evaluations are estimates based on professional experience but necessarily rely on certain significant assumptions including the specific remediation standards and

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technologies which may be required by an environmental agency as well as the availability and cost of subcontractors and disposal alternatives.

There is not sufficient information to reasonably estimate all the environmental liabilities of which management is aware. Accordingly, management is unable to determine whether environmental liabilities which management is unable to reasonably estimate will or will not have a material effect on Heartland's results of operations or financial condition.

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

6. Related Party Transactions

CMC has a management agreement with HTI, pursuant to which CMC is required to pay HTI an annual management fee in the amount of \$425,000. On October 19, 2000, this management agreement was extended from June 26, 2000 to June 27, 2005. In February, 1998, CMC paid HTI the \$425,000 1997 deferred management fee. \$142,000 of the 1998 management fee was paid in 1999. In 1999, the balance of the 1998 fee of \$283,000 was paid as well as 100% of the 1999 fee. The management fee for the year 2000 of \$425,000 was credited against amounts owed CMC.

Under a management services agreement, HTI reimburses Heartland for reasonable and necessary costs and expenses for services totaling \$410,000 for the year ended December 31, 2000, \$368,000 for the year ended December 31, 1999, and \$300,000 for the year ended December 31, 1998. Heartland also makes cash advances to HTI. HTI owes CMC \$4,581,000 as of December 31, 2000 and \$1,093,000 as of December 31, 1999 related to these expenses and cash advances. Included in this amount owed CMC is \$294,000 and \$56,000 of interest accrued on outstanding amounts owed during the years 2000 and 1999, respectively. Interest was computed using the prime rate plus 2 1/4% (11.75% at December 29, 2000). As collateral for the amount owed CMC, HTI Class B, LLC pledged, on December 14, 2000, to Heartland a senior lien and a senior security interest in the Heartland Class B Limited Partnership Interest owned by HTI Class B, LLC. On December 29, 2000, HTI executed a line of credit promissory note that is due on demand, payable to CMC in the amount of \$6,000,000. At that time, HTI granted CMC a Series C Warrant that entitles CMC to purchase 320,000 shares at an exercise price of \$1.05. The warrant is exercisable on or before February 16, 2006. HTI has borrowed \$4,581,000 against this line of credit at December 31, 2000. This \$6,000,000 note bears interest at 13% on December 31, 2000.

7. Leases

Heartland is a lessor under numerous property lease arrangements with varying lease terms. The majority of the leases are cancelable by either party upon thirty to sixty days notice and provide nominal rental income to Heartland. The leases generally require the lessee to construct, maintain and remove any improvements, pay property taxes, maintain insurance and maintain the condition of the property. Heartland has several major leases on buildings and land in Chicago, Illinois and Milwaukee, Wisconsin (this property was sold and closed December 30, 2000) which account for over half of Heartland's annual rental income. The land, buildings and other improvements had a net carrying value of \$2,546,000 and \$2,984,000 at December 31, 2000 and 1999,

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respectively. These amounts are net of depreciation and include corporate furniture and fixtures as well as other buildings and improvements.

Heartland had one non-cancellable operating lease for \$114,401 per year. CMC sold and closed this property in the year 2000.

Heartland leases its offices at certain development sites and certain equipment under various operating leases. Future minimum lease commitments under non-cancellable operating leases are as follows:

2001.....	\$120,000
2002.....	69,000
2003.....	38,000
2004.....	5,000

Total.....	\$232,000
	=====

Rent expense for the years ended December 31, 2000, 1999, and 1998 was \$159,000, \$213,000, and \$294,000, respectively.

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

8. Legal Proceedings and Contingencies

At December 31, 2000, and 1999, Heartland's allowance for claims and liabilities was approximately \$4.5 million and \$2.8 million, respectively. During the years ended December 31, 2000, 1999, and 1998, \$1,835,000, \$378,000, and \$1,461,000, respectively, was recorded as cost and expenses in respect to environmental matters. Significant legal matters are discussed below.

Soo Line Matters

The Soo Line Railroad Company (the "Soo") has asserted that the Company is liable for certain occupational injury claims filed after the consummation of an Asset Purchase Agreement and related agreements ("APA") by former employees now employed by the Soo. The Company has denied liability for each of these claims based on a prior settlement with the Soo. The Soo has also asserted that the Company is liable for the remediation of releases of petroleum or other regulated materials at six different sites acquired from the Company located in Iowa, Minnesota and Wisconsin. The Company has denied liability based on the APA.

The occupational and environmental claims are all currently being handled by the Soo, and the Company understands the Soo has paid settlements on many of these claims. As a result of Soo's exclusive handling of these matters, the Company has made no determination as to the merits of the claims and is unable to determine the materiality of these claims.

Tacoma, Washington

In June, 1997, the Port of Tacoma ("Port") filed a complaint in the United

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States District Court for the Western District of Washington alleging that the Company was liable under Washington state law for the cost of the Port's remediation of a railyard sold in 1980 by the bankruptcy trustee for the Company's predecessor to the Port's predecessor in interest.

On October 1, 1998, the Company entered into a Settlement Agreement with the Port, subsequently modified effective June, 1999, and February 20, 2001 in which the Port released all claims and the Company agreed either to, (a) pay \$1.1 million on or before December 31, 2001, plus interest quarterly from January 1, 1999, or (b) to convey to the Port real property to be agreed upon at a later date. At December 31, 2000, and 1999, Heartland's allowance for claims and liabilities for this site was \$1,100,000.

The Company will not make a claim on its insurance carriers in this matter because the settlement amount does not exceed the self insured retention under the applicable insurance policies.

Wheeler Pit, Janesville, Wisconsin

In November, 1995 the Company settled an environmental claim with respect to the Wheeler Pit site near Janesville, Wisconsin. The settlement calls for the Company to pay General Motors \$800,000 at \$200,000 annually for four years, 32% of the monitoring costs for twenty-five years beginning in 1997 and 32% of governmental oversight costs; the oversight costs not to exceed \$50,000. Payments of \$200,000 were made in 1995, 1996, 1997 and 1998. A payment of \$50,000 for past government oversight costs was made in October, 1998. At December 31, 2000, and 1999, Heartland's allowance for claims and liabilities for this site was \$215,000 and \$189,000, respectively.

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Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

Rosemount, Minnesota

Two suits had been filed with regard to the Company's Bloomfield project in Rosemount, Minnesota. On April 5, 2000, Richard Knutson, Inc. filed suit against CMC Heartland Partners I, Limited Partnership in Dakota County District Court to enforce a mechanic's lien of \$401,000. On June 30, 2000, the City of Rosemount filed suit against CMC Heartland Partners I, Limited Partnership in Dakota County District Court alleging that the City has incurred \$110,000 in unreimbursed engineering fees for which the Company has the obligation to pay. These two suits were resolved by payment of the claims with the sale of the Bloomfield developed acreage on October 4, 2000.

Milwaukee, Wisconsin

On December 2, 2000, the Redevelopment Authority of the City of Milwaukee ("RACM") filed suit in Milwaukee County Circuit Court to obtain access to appraise, survey and conduct environmental and geo-technical investigations on certain property owned by the Company adjacent to the Milwaukee Brewers baseball stadium in furtherance of RACM's future acquisition of the property by condemnation. Heartland has vigorously opposed certain elements of RACM's access. Management is not able to express an opinion at this time as to the merits of this action.

Miscellaneous Environmental Matters

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Under environmental laws, liability for hazardous substance contamination is imposed on the current owners and operators of the contaminated site, as well as the owner or the operator of the site at the time the hazardous substance were disposed or otherwise released. In most cases, this liability is imposed without regard to fault. Currently, the Company has known environmental liabilities associated with certain of its properties arising out of the activities of its predecessor or certain of its predecessor's lessees and may have further material environmental liabilities as yet unknown. The majority of the Company's known environmental liabilities stem from the use of petroleum products, such as motor oil and diesel fuel, in the operation of a railroad or in operations conducted by its predecessor's lessees. The following is a summary of material known environmental matters, in addition to those described above.

The Montana Department of Environmental Quality ("DEQ") has asserted that the Company is liable for some or all of the investigation and remediation of certain properties in Montana sold by its predecessor's reorganization trustee prior to the consummation of its predecessor's reorganization. The Company has denied liability at certain of these sites based on the reorganization bar of the Company's predecessors. The Company's potential liability for the investigation and remediation of these sites was discussed in detail at a meeting with DEQ in April, 1997. While DEQ has not formally changed its position, DEQ has not elected to file suit. Management is not able to express an opinion at this time whether the cost of the defense of this liability or the environmental exposure in the event of the Company's liability will be material.

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

At twelve separate sites, the Company has been notified that releases arising out of the operations of a lessee, former lessee or other third party have been reported to government agencies. At each of these sites, the third party is voluntarily cooperating with the appropriate agency by investigating the extent of any such contamination and performing the appropriate remediation, if any.

The Company has petroleum groundwater remediation projects or long term monitoring programs at Farmington, Minnesota and Miles City, Montana. At December 31, 2000, and 1999, Heartland's aggregate allowance for claims and liabilities for these sites were \$20,000 and \$14,000, respectively.

The Company has an interest in property at Moses Lake, Washington previously owned and used by the United States government as an Air Force base. A portion of the Company's property is located over a well field which was placed on the national priority list in October, 1992. Sampling by the Army Corps of Engineers has indicated the presence of various regulated materials, primarily in the groundwater, which were most likely released as a result of military or other third party operations. The Company has not been named as a primary responsible party.

In July, 1999, suit was filed against the Company in Minnesota District Court by a buyer under an expired real estate sale contract originally entered into in 1995, and extended to June 20, 1999. The plaintiff demanded specific performance by conveyance to it of the vacant 5.95 acre parcel in Minneapolis, Minnesota originally to be sold to the buyer for \$562,000 pursuant to the real estate contract. By Findings of Fact and Conclusions of

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Law, dated April 13, 2000, the court ruled in favor of the Company's motion for summary judgment. Environmental sampling in 1995 disclosed that the parcel was impacted by releases of regulated materials from the 1960s operations of a former lessee. The Company continues to investigate the environmental condition of the property on a voluntary basis under the direction of the Minnesota Department of Agriculture. At December 31, 2000 and 1999, Heartland's aggregate allowance for claims and liabilities for the 5.95 acre parcel in Minneapolis, Minnesota sites were \$2,270,000 and \$653,000, respectively.

Sampling performed in November, 2000, has indicated the presence of solvents in the groundwater under certain property owned by the company in Milwaukee, Wisconsin. Management will not be able to determine the materiality of the remediation costs, if any, of these materials until the concentrations and location of the release has been quantified.

In addition to the environmental matters set forth above, there may be other properties, i), with environmental liabilities not yet known to the Company, or ii), with potential environmental liabilities for which the Company has no reasonable basis to estimate or, iii), which the Company believes the Company is not reasonably likely to ultimately bear the liability, but the investigation or remediation of which may require future expenditures. Management is not able to express an opinion at this time whether the environmental expenditures for these properties will or will not be material.

The Company has given notice to its insurers of certain of the Company's environmental liabilities. Due to the high deductibles on these policies, the Company has not yet demanded that any insurer indemnify or defend the Company. Consequently, management has not formed an opinion regarding the legal sufficiency of the Company's claims for insurance coverage.

The Company is also subject to other suits and claims which have arisen in the ordinary course of business. In the opinion of management, these matters should not be material to the Company's results of operations or financial condition.

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Heartland Partners, L.P.

Notes to Consolidated Financial Statements (Continued)

9. Compensation and Benefits

Heartland sponsors a Group Savings Plan, which is a salary reduction plan qualified under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986. All full-time permanent employees of Heartland are eligible to participate in the plan. A participating employee can authorize contributions to the plan in the form of salary reductions of up to the maximum allowed by the Internal Revenue Code in any plan year. In 2000 and 1999 Heartland made matching contributions of 25% of each participant's contribution to the plan. Participating 1998 employees were fully vested with respect to salary reduction and Heartland's contributions. For all future participants, they are fully vested with respect to salary reduction immediately, but the matching contribution vests at 20% per year. Benefits are normally distributed upon retirement (on or after age 65), death or termination of employment, but may be distributed prior to termination of employment upon showing of financial hardship. Heartland contributed to the plan approximately \$40,000 in 2000, \$58,000 in 1999, and \$80,000 in 1998 on behalf of all employees.

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The President and Chief Executive Officer of CMC will receive commencing January 1, 2000 and continuing thereafter during the time he is employed incentive payments equal to 1/2% of the net proceeds from sales of certain real estate after deducting any debt obligations, closing costs and any real estate brokers commission. As of December 31, 2000, \$73,000 had been earned under this plan. No payments were made during the year 2000. On October 18, 2000, the President and Chief Executive Officer of CMC borrowed \$375,000 from CMC, which remains outstanding at December 31, 2000 and is included as part of accounts receivable at December 31, 2000. The note is due October 17, 2005 and interest is payable quarterly (first interest payment was made December 31, 2000) at the rate of 11% per year. On October 17, 2000 an amendment to the employment agreement authorizes the Company to deduct from any incentive payment made to him 40% of that payment and apply it to his outstanding note due to CMC.

Four officers of CMC have a bonus plan. Effective January 1, 2000, the Company approved the CMC Heartland Partners Incentive Plan ("CMC Plan") and the Sales Incentive Plan ("Sales Plan") to provide incentives to attract, retain or motivate highly competent employees of CMC. The aggregate benefits payable under the CMC Plan shall be computed by multiplying the following percentages (3% for the years 2000 and 2001, 2% for the year 2002 and 1% for the year 2003) by the net proceeds from the sale of certain land parcels during those years. The aggregate benefits payable under the Sales Plan shall be computed by multiplying 3% for the years 2000 and 2001 by the net proceeds from the sale of certain real estate during those years. As of December 31, 2000, \$533,000 had been earned under the plans. No payments to the officers were made during the year 2000.

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Heartland Partners, L.P. Notes to Consolidated Financial Statements (Continued)

10. Reportable Segments

The following tables set forth the reconciliation of net income and total assets for Heartland's reportable segments for the years ended December 31, 2000, 1999 and 1998 (See Note 2 to the Consolidated Financial Statements).

2000 (amounts in thousands)	Land Sales (1)	Property Development (2)	Corporate (3)	Conso
Revenues:				
Property sales	\$ 3,188	\$ 57,821	\$ 0	\$
Less: cost of property sales.....	1,135	44,477	0	
Gross profit on property sales	2,053	13,344	0	
Operating Expenses:				
Selling expenses	788	1,912	0	
General and administrative expenses.....	0	125	2,234	

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Real estate taxes	0	67	0	
Environmental Expense	1,835	0	0	
	-----	-----	-----	-----
Total Operating Expenses	2,623	2,104	2,234	
	-----	-----	-----	-----
Operating Income (loss)	(570)	11,240	(2,234)	
Other Income and (Expenses):				
Portfolio income	0	0	390	
Rental income	743	0	0	
Other income	0	970	0	
Depreciation	0	(162)	(108)	
Management fee	0	0	(425)	
	-----	-----	-----	-----
Total Other Income and (Expense)	743	808	(143)	
	-----	-----	-----	-----
Net Income (Loss)	\$ 173	\$ 12,048	\$ (2,377)	\$
	=====	=====	=====	=====
Properties, net of accumulated depreciation.....	\$ 740	\$ 37,708	\$ 468	\$
	=====	=====	=====	=====
Total assets	\$ 1,322	\$ 40,063	\$ 6,199	\$
	=====	=====	=====	=====

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Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

1999 (amounts in thousands)	Land Sales (1)	Property Development (2)	Corporate (3)	Consol
-----	-----	-----	-----	-----
Revenues:				
Property sales	\$ 1,485	\$ 10,063	\$ 0	\$
Less: cost of property sales ...	261	9,511	0	
	-----	-----	-----	-----
Gross profit on property sales	1,224	552	0	
	-----	-----	-----	-----
Operating Expenses:				
Selling expenses	806	2,764	0	
General and administrative expenses	0	480	2,179	
Real estate taxes	164	15	0	
Environmental Expense	94	284	0	
	-----	-----	-----	-----
Total Operating Expenses	1,064	3,543	2,179	
	-----	-----	-----	-----

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Operating Income (loss)	160	(2,991)	(2,179)
Other Income and (Expenses):			
Portfolio income	0	0	123
Rental income	772	0	0
Other income	0	917	0
Depreciation	0	(89)	(45)
Management fee	0	0	(425)
	-----	-----	-----
Total Other Income and (Expense)	772	828	(347)
	-----	-----	-----
Net Income (Loss)	\$ 932	\$ (2,163)	\$ (2,526)
	=====	=====	=====
Properties, net of accumulated depreciation	\$ 783	\$ 49,171	\$ 797
	=====	=====	=====
Total assets	\$ 1,156	\$ 53,060	\$ 3,040
	=====	=====	=====

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Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

1999 (amounts in thousands)	Land Sales(1)	Property Development (2)	Corporate (3)	Consol
-----	-----	-----	-----	-----
Revenues:				
Property sales	\$ 1,814	\$ 4,417	\$ 0	\$
Less: cost of property sales	215	4,190	0	
	-----	-----	-----	-----
Gross profit on property sales.	1,599	227	0	
	-----	-----	-----	-----
Operating Expenses:				
Selling expenses	969	2,876	0	
General and administrative expenses	0	327	2,792	
Real estate taxes	209	190	0	
Environmental Expense	248	25	1,188	
	-----	-----	-----	-----
Total Operating Expenses	1,426	3,418	3,980	
	-----	-----	-----	-----
Operating Income (loss)	173	(3,191)	(3,980)	
Other Income and (Expenses):				

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Portfolio income	0	0	63	
Rental income	886	0	0	
Other income	0	514	0	
Depreciation	0	(84)	(40)	
Management fee	0	0	(425)	
	-----	-----	-----	-----
Total Other Income and (Expense)	886	430	(402)	
	-----	-----	-----	-----
Net Income (Loss)	\$ 1,059	\$ (2,761)	\$ (4,382)	\$
	=====	=====	=====	=====

- (1) The Land Sales business segment consists of approximately 14,249 acres of land located throughout 12 states for sale as of December 31, 2000, and the related rentals, sales and marketing and general and administrative expenses.
- (2) The Property Development business segment consists of approximately 776 acres representing 14 sites that Heartland is in the process of developing or homebuilding communities in which the Company is currently acquiring finished lots, selling and building homes. The related selling and operating expenses are also reported for this business segment.
- (3) The Corporate level consist of portfolio income from investments, salaries and general and administrative expenses for the employees and occupied commercial office space in Kinzie Station Phase I located in Chicago, Illinois.

Heartland Partners, L.P.
Notes to Consolidated Financial Statements (Continued)

11. Subsequent Events

On January 30, 2001, the final principal and interest payment was made on the \$5,250,000 Kinzie Station Plaza building loan. On February 23, 2001, the Company amended this loan agreement with Bank One, and borrowed an additional \$3,000,000 and changed the maturity date of the loan to February 23, 2002. Bank One advanced the \$3,000,000 on February 28, 2001. \$1,400,000 of these funds were used to permanently reduce the LNB line of credit from \$11,000,000 to \$9,600,000.

On March 28, 2001, the Company closed on the 113 acres it owned in Rosemount, Minnesota. At that time, the final principal and interest payment on the \$450,000 note to Bank One was made.

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(amounts in thousands)

Description	Balance at Beginning of year	Additions charged to costs and expenses	Payments	Balance at end of year
Year Ended December 31, 2000:				
Allowance for claims and liabilities	\$ 2,804	\$ 1,835	\$ (161)	\$ 4,478
Year Ended December 31, 1999:				
Allowance for claims and liabilities	\$ 2,762	\$ 378	\$ (336)	\$ 2,804
Year Ended December 31, 1998:				
Allowance for claims and liabilities	\$ 2,169	\$ 1,461	\$ (868)	\$ 2,762

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SCHEDULE III

HEARTLAND PARTNERS, L.P.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2000
(amounts in thousands)

Description Land, Buildings and Other	Initial Cost to Heartland		Cost Capitalized Subsequent to Acquisition (1)		Land
	Land	Buildings & Improvements	Improvements (3)	Carrying Costs (4)	
Chicago, IL (6)	\$ 661	\$ --	\$ 142	\$ 269	\$
Corporate and other (5)	--	--	1,611	--	
TOTAL	\$ 661	\$ --	\$ 1,753	\$ 269	\$

Description Land, Buildings and Other	Accumulated Depreciation	Date of Completion of Construction	Date Acquired	Life on Which Depreciation In Latest Income Statement Is Computed
Chicago, IL (6)	\$ --	Various	Various	(2)

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Corporate and other	137	Various	Various	(2)

TOTAL	\$ 137			
	=====			

- (1) See Attachment A to Schedule III for reconciliation of beginning of period total to total at end of period.
- (2) Reference is made to Note 2 to the Consolidated Financial Statements for information related to depreciation.
- (3) Improvements include all costs which increase the net realizable value of the property except carrying costs.
- (4) Carrying costs consists primarily of legal fees, real estate taxes and interest.
- (5) This amount includes furniture, equipment and other fixed assets that are included in Land, buildings and other on the Consolidated Balance Sheet.
- (6) Includes a parcel of land encumbered by a \$9,000,000 short term loan (See Note 4 to the Consolidated Financial Statements).

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HEARTLAND PARTNERS, L.P.
ATTACHMENT A TO SCHEDULE III
RECONCILIATION OF COST OF REAL ESTATE AT BEGINNING
OF YEAR WITH TOTAL AT END OF YEAR
(amounts in thousands)

	2000	1999	1998
	-----	-----	-----
Balance at January 1.....	\$ 4,049	\$ 3,563	\$ 3,230
Additions during year:			
Other acquisitions.....	699	357	299
Improvements.....	--	129	104
	-----	-----	-----
Total Additions.....	699	486	333
	-----	-----	-----
Deductions during year:			
Cost of real estate sold.....	2,065	--	--
	-----	-----	-----
Total deductions.....	2,065	--	--
	-----	-----	-----
Balance at December 31.....	\$ 2,683	\$ 4,049	\$ 3,563
	=====	=====	=====

Reconciliation Of Real Estate Accumulated Depreciation
At Beginning of Year with Total At End of Year
(amounts in thousands)

2000	1999	1998
------	------	------

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Balance at January 1.....	\$ 1,065	\$ 931	\$ 807
Additions during year:			
Charged to Expense.....	270	134	124
Total Additions.....	270	134	124
Deductions during year:			
Cost of real estate sold.....	1,198	---	--
Total deductions.....	1,198	---	--
Balance at December 31.....	\$ 137	\$ 1,065	\$ 931
	=====	=====	=====

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

At a meeting held on December 18, 2001, the Board of Directors of the Heartland's General Partner, HTI, approved the engagement of PricewaterhouseCoopers LLP as its independent auditors for the fiscal year ending December 31, 2001 to replace the firm of Ernst & Young LLP, who were dismissed as auditors of the Company effective December 18, 2001. The audit committee of the Board of Directors approved the change in auditors on December 18, 2001.

The reports of Ernst & Young LLP on the Company's financial statements for the past two fiscal years did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to audit scope or accounting principles.

In connection with the audits of the Company's financial statements for each of the two fiscal years ended December 31, 2000, and 1999, there were no disagreements with Ernst & Young LLP on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of Ernst & Young LLP would have caused Ernst & Young LLP to make reference to the matter in their report. The Company requested Ernst & Young LLP to furnish it a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements. A copy of that letter dated December 18, 2001 was filed as Exhibit 16 to the Form 8-K filed December 18, 2001 by Heartland.

The Company engaged PricewaterhouseCoopers LLP as its new independent accountants as of December 18, 2001. During the two most recent fiscal years and through December 17, 2001, the Company has not consulted with PricewaterhouseCoopers LLP regarding either, (i) the application of accounting principles to a specified transaction, either completed or propose; or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report nor oral advice was provided to the Company that was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement, as that term is defined in Item 304 (a) (1) (iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K, or a reportable event, as that term is defined in Item 304 (a)

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(1) (v) of Regulation S-K.

There have been no disagreements with the accountants.

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PART III

Item 10. Directors and Executive Officers.

Heartland does not have a Board of Directors.

Set forth below is information for each director of HTI, each manager of HTI Interests, LLC and each executive officer of HTI and Heartland. Directors of HTI and managers of HTII are not compensated by Heartland.

Name and Age	Principal Occupation, Business Experience and Directorships
Lawrence S. Adelson, 52	Chairman of the Board and Chief Executive Officer of HTI since February , 2002; Chief Executive Officer of the Company since February, 2002; Manager of HTI Interests, LLC. since February, 2002; Vice President and General Counsel of the Company June, 1990 - February, 2002; Vice President and General Counsel of HTI October, 1988 - February, 2002.
Richard P. Brandstatter, 46	Vice President - Finance, Treasurer and Secretary of the Company since August, 1995; Vice President - Finance, Treasurer and Secretary of HTI since February, 1999.
Robert S. Davis, 87	Director of HTI (Class I) (since October, 1988); Member of the compensation committee and chairman of the audit committee of HTI; Manager of HTI Interests, LLC.; self-employed consultant (for more than the past five years); Senior Vice President (1978-79), St. Paul Companies (insurance), St. Paul, Minnesota.
Edwin Jacobson, 72	President and Chief Executive Officer of the Company (since September, 1990) retired February 25, 2002; Manager of HTI Interests, LLC; Director of HTI (Class III) (since November, 1985); Member of the investment committee of HTI. Formerly President (from February 1994-February 1997) and Chief Executive Officer (from February 1994-July 1997) of Avatar Holdings, Inc. (Real estate, water and wastewater utilities operations), Coral Gables, Florida. Mr. Jacobson also served as a director of JCC Holdings, Inc. during 2000 until JCC Holdings, Inc. emerged from bankruptcy proceedings.
John Torell III, 62	Director of HTI (Class III) (since September, 1997); Member of the audit committee of HTI; Manager of HTI Interests, LLC; Chairman (since 1990), Torell Management, Inc. (financial

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advisory), New York, New York; Director of Wyeth, Inc.; Partner (since 2000), Core Capital Group, (Merchant Banking).

Ezra K. Zilkha, 76

Director of HTI (Class II) (since October, 1988); Retired as Chairman of the Board of the Company on February 25, 2002; Chairman of the compensation committee of HTI; Manager of HTI Interests, LLC; President and Director (since 1956), Zilkha & Sons, Inc. (private investments), New York, New York. Mr. Zilkha also serves as a director of the Newhall Land and Farming Company.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires certain officers and directors of Heartland Technology, Inc., managers of HTI Interests, LLC and any persons who own more than ten-percent of the Units to file forms reporting their initial beneficial ownership of Units and subsequent changes in that ownership with the Securities and Exchange Commission and the American Stock Exchange. Officers and directors of Heartland Technology, Inc., managers of HTI Interests, LLC and greater than ten-percent beneficial owners are also required to furnish the Company with copies of all such Section 16(a) forms they file. Based solely on a review of the copies of the forms furnished to the Company, or written representations from certain reporting persons that no Forms 5 were required, the Company believes that during the 2001 fiscal year all section 16(a) filing requirements were complied with.

Item 11. Executive Compensation

The following information is furnished as to all compensation awarded to, earned by or paid to the Chief Executive Officer of CMC and the three other executive officers with 2001 compensation greater than \$100,000.

Name And Principal Position	Year	Annual Salary	Compensation Bonus	All Other Compensation
Edwin Jacobson President and Chief Executive Officer	2001	\$ 350,000	\$ 95,700	\$ 1,700
	2000	333,000	73,200	1,700
	1999	275,000	---	2,500
Lawrence S. Adelson Vice President and General Counsel	2001	\$ 87,200	\$ 136,400	\$ 1,300
	2000	76,700	146,400	1,300
	1999	82,500	---	1,300
Richard P. Brandstatter Vice President-Finance, Treasurer and Secretary	2001	\$ 97,300	\$ 136,400	\$ 1,300
	2000	127,100	146,400	1,300
	1999	90,000	---	1,900
Susan Tjarksen Roussos Vice President-Sales and Marketing	2001	\$ 171,000	\$ 136,400	\$ 2,300
	2000	171,000	146,400	1,900
	1999	190,400	---	1,500

"All Other Compensation" is comprised of CMC's contribution on behalf of the

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officers to a salary reduction plan qualified under Sections 401(a) and (k) of the Internal Revenue Code of 1986. Columns for "Other Annual Compensation", "Restricted Stock Awards", "Options/SARS" and "Payout-LTIP Payout" are omitted since there was no compensation awarded to, earned by or paid to any of the above named executives required to be reported in such columns in any fiscal year covered by the table.

Under a deferred salary arrangement available to all employees, Mr. Adelson deferred approximately \$17,000 of his 1999 salary into 2000, \$40,000 of his 2000 salary into 2001 and \$27,000 of his 2001 salary into 2002.

A new employment agreement signed on December 20, 1999, then amended April 11, 2000 and amended again October 17, 2000 with Edwin Jacobson, as the President and Chief Executive Officer of CMC, provided for a base salary of \$350,000 from August 16, 1995 through May 30, 2005, all or a portion of which could have been deferred at his election.

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He was also entitled to receive commencing January 1, 2000 and continuing thereafter during the time he was employed incentive payments equal to 1/2% of the net proceeds from sales of certain real estate after deducting any debt obligations, closing costs and any real estate brokers commission. For each of the twelve months ended December 31, 2000 and 2001, \$73,000 and \$96,000, respectively, had been accrued as compensation expense under this plan. As of December 31, 2001, \$113,000 had been paid to the President and Chief Executive Officer by the Company. The contract provides incentive compensation equal to 10% of the value of all amounts distributed to the Unitholders and the holder of the Class B Interest in excess of the "Capital Amount" as defined. The Capital Amount is \$26,789,044, subject to adjustment as set forth in the contract (this amount is \$22,870,234 at December 31, 2001). During or after the term of employment, incentive payments will be made with respect to distributions by Heartland during Heartland's term of existence, and if distributions are made subsequent to such Officer's death, payments will be made to his designee or estate. In the event of death, disability or termination without cause of the President and Chief Executive Officer of CMC, he or his estate has the right to have the incentive payments valued and paid. The contract also provides that in the event of a "change of control of Heartland" during or after the term of employment, the officer shall receive a lump sum payment of \$1,250,000. On October 18, 2000, the President and Chief Executive Officer of CMC borrowed \$375,000 from CMC, of which \$330,000 remains outstanding at December 31, 2001 and is included as part of accounts receivable at December 31, 2001. The note is due October 17, 2005 and interest is payable quarterly at the rate of 11% per year. The October 17, 2000 amendment to the employment agreement authorized the Company to deduct from any incentive payment made to him 40% of that payment and apply it to his outstanding note due to the Company. As a result of this amendment, \$45,000 of the above described payment of \$113,000 was applied to the outstanding note balance. On February 25, 2002, Edwin Jacobson retired as the President and Chief Executive Officer of the Company.

Heartland does not maintain any pension, profit-sharing, or similar plan for its employees. Insurance benefit programs are non-discriminatory. CMC sponsors a Group Savings Plan, which is a salary reduction plan qualified under Sections 401(a) and (k) of the Internal Revenue Code of 1986. All full-time permanent employees of CMC are eligible to participate in the plan. In 1999, 2000 and 2001, CMC made matching contributions of 25% of each participant's contribution plan. Participating 1998 employees were fully vested with respect to salary reduction and CMC's contributions. For all future participants, they are fully vested with respect to salary reduction immediately, but the matching contribution vests at 20% per year. Benefits are normally distributed upon

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retirement (on or after age 65), death or termination of employment, but may be distributed prior to termination of employment upon a showing of financial hardship.

Four officers of CMC have a bonus plan. Effective January 1, 2000, the Company approved the CMC Heartland Partners Incentive Plan ("CMC Plan") and the Sales Incentive Plan ("Sales Plan") to provide incentives to attract, retain or motivate highly competent employees of CMC. The aggregate benefits payable under the CMC Plan shall be computed by multiplying the following percentages (3% for the years 2000 and 2001, 2% for the year 2002 and 1% for the year 2003) by the net proceeds from the sale of certain land parcels during those years. The aggregate benefits payable under the Sales Plan shall be computed by multiplying 3% for the years 2000 and 2001 by the net proceeds from the sale of certain real estate during those years. For each of the twelve months ended December 31, 2000 and 2001, \$533,000 and \$440,000, respectively, had been accrued as compensation expense under the plans. As of December 31, 2001, \$267,000 had been paid to the officers by the Company.

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Item 12. Security Ownership of Certain Beneficial Owners and Management.

Security Ownership of Certain Beneficial Owners

Set forth below is certain information concerning persons who are known by Heartland to be beneficial owners of more than 5% of Heartland's outstanding Units at March 29, 2002:

Name and Address of Beneficial Owner (i) -----	Number of Units Owned -----	Percent -----
Lehman Brothers Holdings, Inc. (ii)		
American Express Tower 3 World Financial Center New York, New York 10285.....	187,400	8.9%
Cowen & Company (iii)		
Financial Square New York, New York 10005-3597.....	183,100	8.7%
Edwin Jacobson (iv)		
330 North Jefferson Court, Suite 305 Chicago, Illinois 60661.....	139,400	6.6%
Waveland Partners, L.P. (v)		
227 West Monroe, Suite 4800 Chicago, IL 60606.....	309,338	14.8%
GEM Value Fund, L.P. (vi)		

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900 North Michigan Avenue, Suite 1900 123,045 5.9%
 Chicago, IL 60611.....

- (i) Nature of ownership is direct, except as otherwise indicated herein.
- (ii) Based on Amendment No. 3 to Schedule 13G, filed on February 3, 1995, Lehman Brothers Holdings Inc., through its subsidiary, Lehman Brothers Inc., a registered broker/dealer, has sole voting and dispositive power with respect to such Units.
- (iii) Based on Amendment No. 2 to Schedule 13G, filed on February 12, 1998, Cowen & Company, a registered broker/dealer and investment adviser, Cowen Incorporated and Joseph Cohen have shared voting power of 132,900 Units, and shared dispositive power of 183,100 Units.
- (iv) Included in the table are 9,400 units held by Mr. Jacobson's wife as to which Mr. Jacobson shares voting and dispositive power.
- (v) Based on Form 4 filed on December 10, 2001, Waveland Partners, L.P., Waveland Capital Management, L.P., Waveland Capital Management, L.L.C., Waveland Partners, Ltd. and Waveland International, Ltd. Share voting and dispositive power with respect to such Units.
- (vi) Based on Amendment No. 1 to Schedule 13D, filed on October 26, 2001, GEM Value Fund, L.P. a private investment partnership, and GEM Value Partners LLC, its General Partner, have shared voting and dispositive power with respect to such units

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Security Ownership of Management

Set forth below is certain information concerning the beneficial ownership of Units by each current director of HTI, each manager of HTI Interest, LLC, by each named executive officer of CMC and by all directors and executive officers of HTI and all executive officers of CMC as a group, as of March 28, 2002:

Name of Beneficial Owner and Number of Persons in Group (i)	Number of Units Owned	Percent
Lawrence S. Adelson	15,000	.7%
Richard P. Brandstatter	---	---%
Robert S. Davis	---	---%
Edwin Jacobson (ii)	139,400	6.7%
Susan Tjarksen Roussos	---	---%
John R. Torell III	---	---%
Ezra K. Zilkha (iii)	80,500	3.9%
All directors and executive officers as a group (7 persons)	234,900	11.3%

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- (i) Nature of ownership is direct, except as otherwise indicated herein. Unless shown, ownership is less than 1% of class.
- (ii) Included in the table are 9,400 units held by Mr. Jacobson's wife as to which Mr. Jacobson shares voting and dispositive power.
- (iii) Included in the table are 24,500 Units owned by Zilkha & Sons, Inc., with respect to which Mr. Zilkha may be deemed to be the beneficial owner.

Item 13. Certain Relationships and Related Transactions

CMC had a management agreement with HTI, pursuant to which CMC is required to pay HTI an annual management fee in the amount of \$425,000. On October 19, 2000, this management agreement was extended from June 26, 2000 to June 27, 2005. In 1999, the balance of the 1998 fee of \$283,000 fee was paid as well as 100% of the 1999 fee. The management fees for the years 2000 and 2001 of \$425,000 each were credited against amounts owed CMC. On January 7, 2002, this management agreement was assigned to HTII, the new General Partner.

Under a management services agreement, HTI reimburses Heartland for reasonable and necessary costs and expenses for services. These totaled \$837,000 for the year ended December 31, 2001, \$410,000 for the year ended December 31, 2000 and \$368,000 for the year ended December 31, 1999. Heartland and CMC also made loans to HTI. HTI owes Heartland and CMC in the aggregate \$8,186,000 as of December 31, 2001, \$4,581,000 as of December 31, 2000 and \$1,093,000 as of December 31, 1999 related to these expenses and loans. Included in this amount owed Heartland and CMC is \$882,000, \$294,000 and \$56,000 of interest accrued on outstanding amounts owed during the years 2001, 2000 and 1999, respectively. Interest was computed using the prime rate plus 2 1/4% (11.75% at December 29, 2000) until December 31, 2000 when the interest rate was changed to 13%. As collateral for the amount owed Heartland and CMC, HTI Class B, LLC pledged, on December 14, 2000, to Heartland and CMC a senior lien and a senior security interest in the Heartland Class B Limited Partnership Interest owned by HTI Class B, LLC. On December 29, 2000, HTI executed a line of credit promissory note that is due on demand, payable to Heartland and CMC in the amount of \$6,000,000. At that time, HTI granted the Company a Series C Warrant that entitles the Company to purchase 320,000 shares at an exercise price of \$1.05. The warrant is exercisable on or before February 16, 2006. On May 11, 2001, HTI executed an additional line of credit promissory note in the amount of \$1,000,000. On July 3, 2001, the \$1,000,000 promissory note was cancelled and a replacement line of credit promissory note in the amount of \$1,500,000 was executed. On October 11, 2001, the \$1,500,000 line of credit promissory note was cancelled and a replacement line of credit promissory note in the amount of \$2,000,000 was executed. The line of credit promissory notes bear interest at 13%. The total of the two line of credit promissory notes is \$8,000,000.

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HTI and the Company have provided loans, on market terms, to each other from time to time, as provided in the agreements between them. The initial terms of the loan were based on the collateral of the Class B interest and prevailing borrowing rates. When HTI raised capital through the issuance of subordinated debentures at 13% interest and the grant of warrants, the loan terms were changed to reflect HTI's cost of capital.

At December 31, 2001, HTI owed Heartland and CMC approximately \$8,186,000. On February 25, 2002, the Company and CMC demanded immediate payment in full of all obligations due under the Line of Credit Promissory Notes from HTI. Heartland

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has initiated steps to protect its security interest in the Class B limited partner interest (the "Collateral"). PG Oldco, Inc., a creditor of HTI under notes aggregating \$2,200,000 in principal amount, also has a security interest in the Collateral and has commenced steps to protect its interest. Under the Lien Subordination and Inter-Creditor Agreement ("Inter-Creditor Agreement") among Heartland, CMC, PG Oldco, Inc. and HTI, Heartland and CMC have a first and prior security interest in the Collateral and the proceeds thereof up to the Senior Debt Priority Amount (as defined in the Inter-Creditor Agreement) and PG Oldco, Inc. has a first and prior security interest in the Collateral and the proceeds thereof for all amounts in excess of the Senior Debt Priority Amount. Because of the competing interests in the Collateral, Heartland is not at this time able to predict the ultimate outcome of its efforts to protect its interests in the Collateral or the effect thereof on the Class A limited partners. Nevertheless, management believes the note receivable of \$8,186,000 is recoverable through the Company's security interest in the Class B limited partner interest.

On March 31, 2001, the two Kinzie Station Phase I model homes (a one bedroom unit and a two bedroom unit) and furniture were purchased by two officers of the Company at fair market value. Heartland has leased these model homes back from the officers starting April 1, 2001 and ending April 1, 2004. The monthly rent on the one bedroom model is \$2,350 and on the two bedroom model is \$4,200. The leases contain standard insurance and maintenance clauses as customary in these types of leases.

The officers and directors of HTI, the officers Heartland and the managers of HTII; including Lawrence S. Adelson, Chairman of the Board, President and Chief Executive Officer of HTI and Chief Executive Officer of Heartland, will not devote their entire business time to the affairs of Heartland. The Heartland Partnership Agreement provides that (i) whenever a conflict of interest exists or arises between the General Partner or any of its affiliates, on the one hand, and Heartland, or any Unitholder on the other hand, or (ii) whenever the Heartland Partnership Agreement or any other agreement contemplated therein provides that the General Partner shall act in a manner which is, or provide terms which are, fair and reasonable to Heartland, or any Unitholder, the General Partner shall resolve such conflict of interest, take such action or provide such terms, considering in each case the relative interests of each party (including its own interest) to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interests, any customary or accepted industry practices, and any applicable generally accepted accounting practices or principles. Thus, unlike the strict duty of a fiduciary who must act solely in the best interests of his beneficiary, the Heartland Partnership Agreement permits the General Partner to consider the interests of all parties to a conflict of interest, including the General Partner (although it is not clear under Delaware law that such provisions would be enforceable). The Heartland Partnership Agreement also provides that, in certain circumstances, the General Partner will act in its sole discretion, in good faith or pursuant to other appropriate standards.

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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following documents are filed or incorporated by reference as part of this report:

1. Financial statements - PricewaterhouseCoopers LLP

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The financial statements of Heartland Partners, L.P. are included in Part II, Item 8:

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CONSOLIDATED STATEMENT OF OPERATIONS For the Year Ended December 31, 2001.....	18
CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL For the Year Ended December 31, 2001.....	19
CONSOLIDATED STATEMENT OF CASH FLOWS For the Year Ended December 31, 2001.....	20
Notes to Consolidated Financial Statements.....	21
2. Financial statement schedules - PricewaterhouseCoopers LLP -----	
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Attachment A to Schedule III.....	35

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3. Financial statements - Ernst & Young LLP

The financial statements of Heartland Partners, L.P. are included in Part II, Item 8:

REPORT OF INDEPENDENT AUDITORS.....	36
CONSOLIDATED BALANCE SHEETS December 31, 2000 and 1999.....	37
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL For the Years Ended December 31, 2000, 1999, and 1998.....	38
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CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2000, 1999, and 1998.....	40
Notes to Consolidated Financial Statements.....	41
4. Financial statement schedules - Ernst & Young LLP -----	
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REAL ESTATE AND ACCUMULATED DEPRECIATION.....	58
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3. Exhibits

- 3.1 Certificate of Limited Partnership, dated as of October 4, 1988, incorporated by reference to Exhibit 3.1 to Heartland's Current Report on Form 8-K dated January 5, 1998.
- 3.2 Amended and Restated Agreement of Limited Partnership of Heartland Partners, L.P., dated as of June 27, 1990, incorporated by reference to Exhibit 3.2 to Heartland's Current Report on Form 8-K dated January 5, 1998.
- 3.3 Amendment, dated as of December 4, 1997, to the Amended and Restated Agreement of Limited Partnership of Heartland Partners, L.P., incorporated by reference to Exhibit 3.3 to Heartland's Current report on Form 8-K dated January 5, 1998.
- 4. Unit of Limited Partnership Interest in Heartland Partners, L.P., incorporated by reference to Exhibit 4 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.1 Conveyance Agreement, dated as of June 27, 1990, by and among Chicago Milwaukee Corporation, Milwaukee Land Company, CMC Heartland Partners and Heartland Partners, L.P., incorporated by reference to Exhibit 10.1 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.2 Management Agreement, dated as of June 27, 1990, by and among Chicago Milwaukee Corporation, Heartland Partners, L.P. and CMC Heartland Partners, incorporated by reference to Exhibit 10.2 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.3 Amended and Restated Partnership Agreement of CMC Heartland Partners, dated as of June 27, 1990, between Heartland Partners, L.P. and Milwaukee Land Company, incorporated by reference to Exhibit 10.3 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.4 Employment Agreement, dated July 1, 1990, by and between Edwin Jacobson and CMC Heartland Partners, incorporated by reference to Exhibit 10.4 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1990.*
- 10.5 First Amendment to Employment Agreement, dated July 1, 1993, by and between Edwin Jacobson and CMC Heartland Partners incorporated by reference to Exhibit 10.5 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1994.*
- 10.6 Second Amendment to Employment Agreement, dated as of July 1, 1995, between CMC Heartland Partners and Edwin Jacobson, incorporated by reference to Exhibit 10.6 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.*
- 10.7 Employment Agreement, dated July 2, 1995, between CMC Heartland Partners and Edwin Jacobson, incorporated by reference to Exhibit 10.7 to Heartland's Quarterly Report on Form 10-Q for the quarter ended

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September 30, 1995.*

10.8 First Amendment to Employment Agreement, dated as of January 2, 1998, between CMC Heartland Partners and Edwin Jacobson, incorporated by reference to Exhibit 10.8 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1997.*

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10.9 Loan and Security Agreement dated March 15, 1996, between CMC Heartland Partners and LaSalle National Bank, incorporated by reference to Exhibit 10.1 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

10.10 Amendment to Loan and Security Agreement dated May 14, 1997, by and between CMC Heartland Partners and LaSalle National Bank, incorporated by reference to Exhibit 10.2 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

10.11 Amended and Restated Loan Security Agreement dated June 30, 1998 among CMC Heartland Partners, L.P. and LaSalle National Bank, incorporated by reference to Exhibit 10.3 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

10.12 Option, Management and Marketing Agreement dated September 9, 1998 between CMC Heartland Partners VII, LLC and Longleaf Associates Limited Partnership, incorporated by reference to Exhibit 10.4 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

10.13 Settlement Agreement by and between the Port of Tacoma, CMC Real Estate Corporation, Chicago Milwaukee Corporation, CMC Heartland Partners, and Heartland Partners L.P. effective October 1, 1998, incorporated by reference to Exhibit 10.5 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

10.14 Amendment to Amended and Restated Loan and Security Agreement dated October 23, 1998 among CMC Heartland Partners and LaSalle National Bank, incorporated by reference to Exhibit 10.6 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

10.15 Loan Agreement, between CMC Heartland Partners I, Limited Partnership, a Delaware limited partnership, as Borrower and Bank One, Illinois, NA, a national banking association, as Lender dated November 30, 1998, incorporated by reference to Exhibit 10.15 to Heartland's Annual Report Form 10-K for the year ended December 31, 1998.

10.16 Construction Loan Agreement dated January 6, 1999 between CMC Heartland Partners III, LLC and Corus Bank, N.A., incorporated by reference to Exhibit 10.16 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.

10.17 The First Amendment of Mortgage and Other Loan documents dated February 1, 1999 between CMC Heartland Partners I, Limited Partnership and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.17 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.

10.18 Second Amendment to Amended and Restated Loan and Security Agreement dated April 29, 1999 among CMC Heartland Partners, and Heartland Partners, L.P. and LaSalle National Bank, incorporated by reference to Exhibit 10.18 to Heartland's Quarterly Report on Form 10-Q for the

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Quarter ended June 30, 1999.

- 10.19 Employment Agreement, dated December 20, 1999, between CMC Heartland Partners and Edwin Jacobson incorporated by reference to Exhibit 10.19 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1999.*
- 10.20 Construction Loan Agreement dated October 20, 1999 between CMC Heartland Partners III, LLC, a Delaware limited liability company and Bank One, Illinois, N.A., a national banking association incorporated by reference to Exhibit 10.20 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1999.
- 10.21 Third amendment to Amended and Restated Loan and Security Agreement dated November 18, 1999 among CMC Heartland Partners, and Heartland Partners, L.P. and LaSalle National Association, a national banking association incorporated by reference to Exhibit 10.21 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1999.
- 10.22 Construction Loan Agreement dated December 9, 1999 between CMC Heartland Partners VII, LLC, a Delaware limited liability company and Bank One, Illinois, N.A., a national banking association incorporated by reference to Exhibit 10.22 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1999.
- 10.23 Fourth Amendment to Amended and Restated Loan and Security Agreement dated March 20, 2000 among CMC Heartland Partners, and Heartland Partners, L.P. and LaSalle Bank National Association, a national banking association, incorporated by reference to Exhibit 10.23 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.
- 10.24 Second Amendment to Construction Loan Agreement dated March 31, 2000 between CMC Heartland Partners I, Limited Partnership, a Delaware limited partnership and Bank One, Illinois, N.A., a national banking association, incorporated by reference to Exhibit 10.24 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.
- 10.25 First Amendment to Employment Agreement, dated December 20, 1999, between CMC Heartland Partners and Edwin Jacobson, incorporated by reference to Exhibit 10.25 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.*
- 10.26 CMC Heartland Partners Incentive Plan effective January 1, 2000, incorporated by reference to Exhibit 10.26 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.
- 10.27 The Sales Incentive Plan effective January 1, 2000, incorporated by reference to Exhibit 10.27 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.
- 10.28 Payoff letter dated June 29, 2000 to Near North National Title Corporation among CMC Heartland Partners and LaSalle Bank National Association, a national banking association, incorporated by reference to Exhibit 10.28 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.

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- 10.29 Payoff letter dated August 1, 2000 to Near North National Title Corporation among CMC Heartland Partners and LaSalle Bank National Association, a national banking association, incorporated by reference to Exhibit 10.29 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
- 10.30 LaSalle Bank National Association loans to CMC Heartland Partners, Heartland Partners, L.P. and CMC Heartland Partners, IV increase in Revolving Credit Commitment letter dated October 15, 2000, incorporated by reference to Exhibit 10.30 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- 10.31 Promissory Note dated October 17, 2000 between CMC Heartland Partners and Edwin Jacobson for \$375,000, incorporated by reference to Exhibit 10.31 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- 10.32 Second Amendment to Edwin Jacobson December 20, 1999 Employment Agreement dated October 17, 2000, incorporated by reference to Exhibit 10.32 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.*
- 10.33 Amendment Agreement to Management Agreement between CMC Heartland Partners and Heartland Technology, Inc. dated October 19, 2000, incorporated by reference to Exhibit 10.33 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- 10.34 The Second Amendment of Mortgage and Amendment to Loan Agreement, Note and Other Loan Documents dated December 1, 2000, by and between CMC Heartland Partners I, Limited Partnership and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.34 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.35 First Amendment of Construction Loan Agreement, Note, Deed of Trust and Other Loan Documents dated December 8, 2000 between CMC Heartland Partners VII, LLC and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.35 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.36 Promissory Note dated December 12, 2000 between CMC Heartland Partners VII, LLC and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.36 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.37 Purchase and Sale Agreement dated December 12, 2000 between CMC Heartland Partners VII, LLC and Longleaf Associates Limited Partnership, incorporated by reference to Exhibit 10.37 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.38 Line of Credit Promissory Note dated December 29, 2000 between Heartland Technology, Inc. (Borrower) and CMC Heartland Partners (Payee), incorporated by reference to Exhibit 10.38 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.39 Series C Warrant exercisable on or before February 16, 2006 issued to Heartland Partners, LP by Heartland Technology, Inc. on February 16, 2001, incorporated by reference to Exhibit 10.39 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.

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- 10.40 Fifth Amendment to Amendment Restated Loan and Security Agreement dated December 31, 2000 between CMC Heartland Partners, Heartland Partners, LP and CMC Heartland Partners IV, LLC and LaSalle Bank National Association, incorporated by reference to Exhibit 10.40 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.41 Second Amendment of Construction Loan Agreement, Mortgage, Notes, and Other Loan Documents dated February 23, 2001 between CMC Heartland Partners III, LLC and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.41 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.42 The Senior Security Agreement dated December 14, 2000 between HTI Class B, LLC, Heartland Technology, Inc. and Heartland Partners, L.P. and CMC Heartland Partners, incorporated by reference to Exhibit 10.42 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.43 The Control Agreement dated December 14, 2000 between Heartland Partners, L.P. and HTI Class B, LLC and CMC Heartland Partners, incorporated by reference to Exhibit 10.43 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.44 Line of Credit Promissory Note dated December 14, 2000 between Heartland Technology, Inc. (borrower) and Heartland Partners, L.P. and CMC Heartland Partners (collectively, the payee), incorporated by reference to Exhibit 10.44 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.45 The Lien Subordination and Inter-Creditor Agreement between CMC Heartland Partners and Heartland Partners, L.P. and PG Oldco, Inc. and Heartland Technology, Inc., incorporated by reference to Exhibit 10.45 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.46 The Control Agreement dated December 18, 2000 between Heartland Partners, L.P. and HTI Class B, LLC and PG Oldco, Inc., incorporated by reference to Exhibit 10.46 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.47 The Subordinated Security Agreement dated December 18, 2000 between HTI Class B, LLC and Heartland Technology, Inc. and PG Oldco, Inc., incorporated by reference to Exhibit 10.47 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.48 Second Agreement dated February 20, 2001 between the Port of Tacoma and CMC heartland Partners modifying terms of settlement agreement and affecting real property in Pierce County, Washington, incorporated by reference to Exhibit 10.48 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
- 10.49 First Agreement dated June 28, 1999 effective July 15, 1999 between the Port of Tacoma and CMC Heartland Partners modifying terms of settlement agreement and affecting real property in Pierce County, Washington, incorporated by reference to Exhibit 10.49 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- 10.50 Sixth Amendment to Amended and Restated Loan and Security Agreement dated March 31, 2001 between CMC Heartland Partners, Heartland

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Partners, LP and CMC Heartland Partners IV, LLC and LaSalle Bank National Association, incorporated by reference to Exhibit 10.50 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.

- 10.51 Second Amendment of Construction Loan Agreement, Note, Deed of Trust and Other Loan Documents dated April 12, 2001 between CMC Heartland Partners VII, LLC and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.51 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- 10.52 \$1,000,000 Line of Credit Promissory Note dated May 11, 2001 between Heartland Technology, Inc. (borrower) and Heartland Partners, L.P. and CMC Heartland Partners (collectively, the payee), incorporated by reference to Exhibit 10.52 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- 10.53 \$1,500,000 Line of Credit Promissory Note dated July 3, 2001 between Heartland Technology, Inc. (borrower) and Heartland Partners, L.P. and CMC Heartland Partners (the payee), incorporated by reference to Exhibit 10.53 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- 10.54 \$2,000,000 Line of Credit Promissory Note dated October 11, 2001 between Heartland Technology, Inc. (borrower) and Heartland Partners, L.P. and CMC Heartland Partners (collectively, the payee), incorporated by reference to Exhibit 10.54 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
- 10.55 Seventh Amendment to Amended and Restated Loan and Security Agreement dated December 31, 2001 between CMC Heartland Partners, Heartland Partners, LP and CMC Heartland Partners IV, LLC and LaSalle Bank National Association (filed herewith).
- 10.56 Third Agreement dated January 9, 2002 between the Port of Tacoma and CMC Heartland Partners modifying terms of settlement agreement and affecting real property in Pierce County, Washington (filed herewith).
- 10.57 Modification Agreement dated February 23, 2002 between CMC Heartland Partners III, LLC and Bank One Illinois, N.A. (filed herewith).

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- 21 Subsidiaries of Heartland Partners, L.P (filed herewith).

* Management contract required to be filed as an exhibit pursuant to item 14(c)

(b) Reports on Form 8-K

A Form 8-K was filed by Heartland with the Securities and Exchange Commission on December 18, 2001, announcing the Board of Directors of the Company's General Partner, HTI, had approved the engagement of PricewaterhouseCoopers LLP as its auditors for the fiscal year ending December 31, 2001 to replace the firm of Ernst & Young LLP, who were dismissed as auditors of Heartland effective December 18, 2001. The Audit Committee of the Board of Directors of HTI approved the change in auditors on December 18, 2001.

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 to be signed on its behalf by the undersigned, thereunto duly authorized.

HEARTLAND PARTNERS, L.P.

(Registrant)

By /s/ Lawrence S. Adelson

Lawrence S. Adelson
(Manager of HTI Interests, LLC,
General Partner)

Date: April 1, 2002

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

/s/ Robert S. Davis

Robert S. Davis
(Manager of HTI Interests, LLC,
General Partner)
April 1, 2002

/s/ Edwin Jacobson

Edwin Jacobson
(Manager of HTI Interests, LLC,
General Partner)
April 1, 2002

/s/ Lawrence S. Adelson

Lawrence S. Adelson
(Manager of HTI Interests, LLC,
General Partner)
April 1, 2002

/s/ Ezra K. Zilkha

Ezra K. Zilkha
(Manager of HTI Interests, LLC,
General Partner)
April 1, 2002

/s/ John R. Torell III

John R. Torell III
(Manager of HTI Interests, LLC,
General Partner)
April 1, 2002

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HEARTLAND PARTNERS, L.P.

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Certificate of Limited Partnership, dated as of October 4, 1988, incorporated by reference to Exhibit 3.1 to Heartland's Current Report on Form 8-K dated January 5, 1998.
3.2	Amended and Restated Agreement of Limited Partnership of Heartland Partners, L.P., dated as of June 27, 1990, incorporated by reference to Exhibit 3.2 to Heartland's Current Report on Form 8-K dated January 5, 1998.
3.3	Amendment, dated as of December 4, 1997, to the Amended and Restated Agreement of Limited Partnership of Heartland Partners, L.P., incorporated by reference to Exhibit 3.3 to Heartland's Current report on Form 8-K dated January 5, 1998.
4.	Unit of Limited Partnership Interest in Heartland Partners, L.P., incorporated by reference to Exhibit 4 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1990.
10.1	Conveyance Agreement, dated as of June 27, 1990, by and among Chicago Milwaukee Corporation, Milwaukee Land Company, CMC Heartland Partners and Heartland Partners, L.P., incorporated by reference to Exhibit 10.1 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1990.
10.2	Management Agreement, dated as of June 27, 1990, by and among Chicago Milwaukee Corporation, Heartland Partners, L.P. and CMC Heartland Partners, incorporated by reference to Exhibit 10.2 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1990.
10.3	Amended and Restated Partnership Agreement of CMC Heartland Partners, dated as of June 27, 1990, between Heartland Partners, L.P. and Milwaukee Land Company, incorporated by reference to Exhibit 10.3 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1990.
10.4	Employment Agreement, dated July 1, 1990, by and between Edwin Jacobson and CMC Heartland Partners, incorporated by reference to Exhibit 10.4 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1990.*
10.5	First Amendment to Employment Agreement, dated July 1, 1993, by and between Edwin Jacobson and CMC Heartland Partners incorporated by reference to Exhibit 10.5 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1994.*

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Exhibit Number	Description
10.6	Second Amendment to Employment Agreement, dated as of July 1, 1995, between CMC Heartland Partners and Edwin Jacobson, incorporated by

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- reference to Exhibit 10.6 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.*
- 10.7 Employment Agreement, dated July 2, 1995, between CMC Heartland Partners and Edwin Jacobson, incorporated by reference to Exhibit 10.7 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.*
- 10.8 First Amendment to Employment Agreement, dated as of January 2, 1998, between CMC Heartland Partners and Edwin Jacobson, incorporated by reference to Exhibit 10.8 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1997.*
- 10.9 Loan and Security Agreement dated March 15, 1996, between CMC Heartland Partners and LaSalle National Bank, incorporated by reference to Exhibit 10.1 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10.10 Amendment to Loan and Security Agreement dated May 14, 1997, by and between CMC Heartland Partners and LaSalle National Bank, incorporated by reference to Exhibit 10.2 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10.11 Amended and Restated Loan Security Agreement dated June 30, 1998 among CMC Heartland Partners, L.P. and LaSalle National Bank, incorporated by reference to Exhibit 10.3 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10.12 Option, Management and Marketing Agreement dated September 9, 1998 between CMC Heartland Partners VII, LLC and Longleaf Associates Limited Partnership, incorporated by reference to Exhibit 10.4 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10.13 Settlement Agreement by and between the Port of Tacoma, CMC Real Estate Corporation, Chicago Milwaukee Corporation, CMC Heartland Partners, and Heartland Partners L.P. effective October 1, 1998, incorporated by reference to Exhibit 10.5 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10.14 Amendment to Amended and Restated Loan and Security Agreement dated October 23, 1998 among CMC Heartland Partners and LaSalle National Bank, incorporated by reference to Exhibit 10.6 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10.15 Loan Agreement, between CMC Heartland Partners I, Limited Partnership, a Delaware limited partnership, as Borrower and Bank One, Illinois, NA, a national banking association, as Lender dated November 30, 1998, incorporated by reference to Exhibit 10.15 to Heartland's Annual Report Form 10-K for the year ended December 31, 1998.

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Exhibit Number	Description

10.16	Construction Loan Agreement dated January 6, 1999 between CMC Heartland Partners III, LLC and Corus Bank, N.A., incorporated by reference to Exhibit 10.16 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.

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- 10.17 The First Amendment of Mortgage and Other Loan documents dated February 1, 1999 between CMC Heartland Partners I, Limited Partnership and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.17 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.
- 10.18 Second Amendment to Amended and Restated Loan and Security Agreement dated April 29, 1999 among CMC Heartland Partners, and Heartland Partners, L.P. and LaSalle National Bank, incorporated by reference to Exhibit 10.18 to Heartland's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1999.
- 10.19 Employment Agreement, dated December 20, 1999, between CMC Heartland Partners and Edwin Jacobson incorporated by reference to Exhibit 10.19 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1999.*
- 10.20 Construction Loan Agreement dated October 20, 1999 between CMC Heartland Partners III, LLC, a Delaware limited liability company and Bank One, Illinois, N.A., a national banking association incorporated by reference to Exhibit 10.20 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1999.
- 10.21 Third amendment to Amended and Restated Loan and Security Agreement dated November 18, 1999 among CMC Heartland Partners, and Heartland Partners, L.P. and LaSalle National Association, a national banking association incorporated by reference to Exhibit 10.21 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1999.
- 10.22 Construction Loan Agreement dated December 9, 1999 between CMC Heartland Partners VII, LLC, a Delaware limited liability company and Bank One, Illinois, N.A., a national banking association incorporated by reference to Exhibit 10.22 to Heartland's Annual Report on Form 10-K for the year ended December 31, 1999.
- 10.23 Fourth Amendment to Amended and Restated Loan and Security Agreement dated March 20, 2000 among CMC Heartland Partners, and Heartland Partners, L.P. and LaSalle Bank National Association, a national banking association, incorporated by reference to Exhibit 10.23 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.
- 10.24 Second Amendment to Construction Loan Agreement dated March 31, 2000 between CMC Heartland Partners I, Limited Partnership, a Delaware limited partnership and Bank One, Illinois, N.A., a national banking association, incorporated by reference to Exhibit 10.24 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.

Exhibit Number	Description
-----	-----
10.25	First Amendment to Employment Agreement, dated December 20, 1999, between CMC Heartland Partners and Edwin Jacobson, incorporated by reference to Exhibit 10.25 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.*
10.26	CMC Heartland Partners Incentive Plan effective January 1, 2000, incorporated by reference to Exhibit 10.26 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.

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- 10.27 The Sales Incentive Plan effective January 1, 2000, incorporated by reference to Exhibit 10.27 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.
- 10.28 Payoff letter dated June 29, 2000 to Near North National Title Corporation among CMC Heartland Partners and LaSalle Bank National Association, a national banking association, incorporated by reference to Exhibit 10.28 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
- 10.29 Payoff letter dated August 1, 2000 to Near North National Title Corporation among CMC Heartland Partners and LaSalle Bank National Association, a national banking association, incorporated by reference to Exhibit 10.29 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
- 10.30 LaSalle Bank National Association loans to CMC Heartland Partners, Heartland Partners, L.P. and CMC Heartland Partners, IV increase in Revolving Credit Commitment letter dated October 15, 2000, incorporated by reference to Exhibit 10.30 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- 10.31 Promissory Note dated October 17, 2000 between CMC Heartland Partners and Edwin Jacobson for \$375,000, incorporated by reference to Exhibit 10.31 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- 10.32 Second Amendment to Edwin Jacobson December 20, 1999 Employment Agreement dated October 17, 2000, incorporated by reference to Exhibit 10.32 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.*
- 10.33 Amendment Agreement to Management Agreement between CMC Heartland Partners and Heartland Technology, Inc. dated October 19, 2000, incorporated by reference to Exhibit 10.33 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- 10.34 The Second Amendment of Mortgage and Amendment to Loan Agreement, Note and Other Loan Documents dated December 1, 2000, by and between CMC Heartland Partners I, Limited Partnership and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.34 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.

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Exhibit Number	Description
10.35	First Amendment of Construction Loan Agreement, Note, Deed of Trust and Other Loan Documents dated December 8, 2000 between CMC Heartland Partners VII, LLC and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.35 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
10.36	Promissory Note dated December 12, 2000 between CMC Heartland Partners VII, LLC and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.36 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.

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- 10.37 Purchase and Sale Agreement dated December 12, 2000 between CMC Heartland Partners VII, LLC and Longleaf Associates Limited Partnership, incorporated by reference to Exhibit 10.37 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.38 Line of Credit Promissory Note dated December 29, 2000 between Heartland Technology, Inc. (Borrower) and CMC Heartland Partners (Payee), incorporated by reference to Exhibit 10.38 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.39 Series C Warrant exercisable on or before February 16, 2006 issued to Heartland Partners, LP by Heartland Technology, Inc. on February 16, 2001, incorporated by reference to Exhibit 10.39 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.40 Fifth Amendment to Amendment Restated Loan and Security Agreement dated December 31, 2000 between CMC Heartland Partners, Heartland Partners, LP and CMC Heartland Partners IV, LLC and LaSalle Bank National Association, incorporated by reference to Exhibit 10.40 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.41 Second Amendment of Construction Loan Agreement, Mortgage, Notes, and Other Loan Documents dated February 23, 2001 between CMC Heartland Partners III, LLC and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.41 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.42 The Senior Security Agreement dated December 14, 2000 between HTI Class B, LLC, Heartland Technology, Inc. and Heartland Partners, L.P. and CMC Heartland Partners, incorporated by reference to Exhibit 10.42 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.43 The Control Agreement dated December 14, 2000 between Heartland Partners, L.P. and HTI Class B, LLC and CMC Heartland Partners, incorporated by reference to Exhibit 10.43 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.44 Line of Credit Promissory Note dated December 14, 2000 between Heartland Technology, Inc. (borrower) and Heartland Partners, L.P. and CMC Heartland Partners (collectively, the payee), incorporated by reference to Exhibit 10.44 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.

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Exhibit Number	Description
10.45	The Lien Subordination and Inter-Creditor Agreement between CMC Heartland Partners and Heartland Partners, L.P. and PG Oldco, Inc. and Heartland Technology, Inc., incorporated by reference to Exhibit 10.45 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
10.46	The Control Agreement dated December 18, 2000 between Heartland Partners, L.P. and HTI Class B, LLC and PG Oldco, Inc., incorporated by reference to Exhibit 10.46 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.

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- 10.47 The Subordinated Security Agreement dated December 18, 2000 between HTI Class B, LLC and Heartland Technology, Inc. and PG Oldco, Inc., incorporated by reference to Exhibit 10.47 to Heartland's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.48 Second Agreement dated February 20, 2001 between the Port of Tacoma and CMC heartland Partners modifying terms of settlement agreement and affecting real property in Pierce County, Washington, incorporated by reference to Exhibit 10.48 to Heartland's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
- 10.49 First Agreement dated June 28, 1999 effective July 15, 1999 between the Port of Tacoma and CMC Heartland Partners modifying terms of settlement agreement and affecting real property in Pierce County, Washington, incorporated by reference to Exhibit 10.49 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- 10.50 Sixth Amendment to Amended and Restated Loan and Security Agreement dated March 31, 2001 between CMC Heartland Partners, Heartland Partners, LP and CMC Heartland Partners IV, LLC and LaSalle Bank National Association, incorporated by reference to Exhibit 10.50 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- 10.51 Second Amendment of Construction Loan Agreement, Note, Deed of Trust and Other Loan Documents dated April 12, 2001 between CMC Heartland Partners VII, LLC and Bank One, Illinois, N.A., incorporated by reference to Exhibit 10.51 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- 10.52 \$1,000,000 Line of Credit Promissory Note dated May 11, 2001 between Heartland Technology, Inc. (borrower) and Heartland Partners, L.P. and CMC Heartland Partners (collectively, the payee), incorporated by reference to Exhibit 10.52 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- 10.53 \$1,500,000 Line of Credit Promissory Note dated July 3, 2001 between Heartland Technology, Inc. (borrower) and Heartland Partners, L.P. and CMC Heartland Partners (the payee), incorporated by reference to Exhibit 10.53 to Heartland's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.

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Exhibit Number	Description
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10.54	\$2,000,000 Line of Credit Promissory Note dated October 11, 2001 between Heartland Technology, Inc. (borrower) and Heartland Partners, L.P. and CMC Heartland Partners (collectively, the payee), incorporated by reference to Exhibit 10.54 to Heartland's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
10.55	Seventh Amendment to Amended and Restated Loan and Security Agreement dated December 31, 2001 between CMC Heartland Partners, Heartland Partners, LP and CMC Heartland Partners IV, LLC and LaSalle Bank National Association (filed herewith).
10.56	Third Agreement dated January 9, 2002 between the Port of Tacoma and CMC Heartland Partners modifying terms of settlement agreement and affecting

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real property in Pierce County, Washington (filed herewith).

- 10.57 Modification Agreement dated February 23, 2002 between CMC Heartland Partners III, LLC and Bank One Illinois, N.A. (filed herewith).
- 21 Subsidiaries of Heartland Partners, L.P. (filed herewith).

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Exhibit 21

Subsidiaries of Registrant

The following is a list of all the registrant's direct and indirect subsidiaries, state of incorporation or organization and the percentage ownership by Heartland of each.

Name of Subsidiary	State	Ownership
CMC Heartland Partners	N/A	99.99%
Heartland Development Corporation	Delaware	100%
CMC Heartland Partners I, Limited Partnership	Delaware	(a)
CMC Heartland Partners I, LLC	Delaware	(b)
CMC Heartland Partners II, LLC	Delaware	(b)
CMC Heartland Partners III, LLC	Delaware	(b)
CMC Heartland Partners IV, LLC	Delaware	(b)
CMC Heartland Partners V, LLC	Delaware	(b)
CMC Heartland Partners VI, LLC	Delaware	(b)
CMC Heartland Partners VII, LLC	Delaware	(b)
CMC Heartland Partners VIII, LLC	Delaware	(b)
Lifestyle Communities, Ltd.	Delaware	(b)
Lifestyle Construction Company, Inc.	Delaware	(b)

(a) CMC Heartland Partners I, Limited Partnership is owned by CMC Heartland Partners as sole limited partner and Heartland Development Corporation as sole general partner.

(b) CMC Heartland Partners I, II, III, IV, V, VI, VII, VIII and Lifestyle Communities, Ltd. and Lifestyle Construction Company, Inc. are all

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100% owned by CMC Heartland Partners.