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HEARTLAND PARTNERS L P
Form 10-Q
May 15, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2002

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

36-3606475

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

330 North Jefferson Court, Chicago, Illinois

60661

(Address of principal executive offices)

(Zip Code)

312/575-0400

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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HEARTLAND PARTNERS, L.P.
March 31, 2002

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HEARTLAND PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2002 AND DECEMBER 31, 2001
(amounts in thousands)
(Unaudited)

	March 31, 2002	December 31, 2001
	-----	-----
Assets:		
Cash	\$ 266	\$ 103
Restricted cash	1,152	1,196
Accounts receivable	374	430
Due from affiliate	8,519	8,186

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Prepaid and other assets	89	138
Investment in joint venture	129	166
	-----	-----
Total	10,529	10,219
	-----	-----
Property:		
Land	1,072	1,072
Buildings and improvements	634	1,630
Less accumulated depreciation	164	1,144
	-----	-----
Net land, buildings and improvements	1,542	1,558
Land held for sale	718	723
Housing inventories	10,241	10,847
Land held for development	4,807	4,807
Capitalized predevelopment costs	10,891	10,266
	-----	-----
Net properties	28,199	28,201
	-----	-----
Total assets	\$ 38,728	\$ 38,420
	=====	=====
Liabilities:		
Notes payable	\$ 7,612	\$ 6,746
Accounts payable and accrued expenses	2,832	2,625
Cash overdraft	--	278
Accrued real estate taxes	924	817
Allowance for claims and liabilities	4,349	4,337
Unearned rents and deferred income	1,505	1,530
Other liabilities	2,027	2,027
	-----	-----
Total liabilities	19,249	18,360
	-----	-----
Partners' capital:		
General Partner	76	81
Class A Limited Partners -		
2,142 units authorized, issued		
and 2,093 outstanding at March 31, 2002		
and 2,095 outstanding at December 31, 2001	9,817	10,390
Class B Limited Partner	9,586	9,589
	-----	-----
Total partners' capital	19,479	20,060
	-----	-----
Total liabilities and partners' capital	\$ 38,728	\$ 38,420
	=====	=====

See accompanying notes to consolidated financial statements.

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(Unaudited)

	Quarter Ended March 31,	
	2002	2001
	-----	-----
Income:		
Property sales	\$ 1,044	\$ 10,210
Less: Cost of property sales	1,044	7,003
	-----	-----
Gross profit on property sales	--	3,207
	-----	-----
Operating Expenses:		
Selling expenses	325	979
General and administrative expenses	458	523
Real estate taxes	23	24
Environmental expenses	20	19
	-----	-----
Total operating expenses	826	1,545
	-----	-----
Operating (loss) income	(826)	1,662
Other Income and (Expenses):		
Portfolio income	285	370
Rental income	86	91
Other income	29	202
Depreciation	(16)	(25)
Management fee	(103)	(106)
	-----	-----
Total other income	281	532
	-----	-----
Net (loss) income	\$ (545)	\$ 2,194
	=====	=====
Net (loss) income allocated to General partner	\$ (5)	\$ 22
	=====	=====
Net (loss) income allocated to Class B limited partner	\$ (3)	\$ 11
	=====	=====
Net (loss) income allocated to Class A limited partners	\$ (537)	\$ 2,161
	=====	=====
Net (loss) income per Class A Limited partnership unit	\$ (0.26)	\$ 1.01
	=====	=====
Weighted average number of Class A limited partnership units outstanding	2,094	2,142
	=====	=====

See accompanying notes to consolidated financial statements.

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HEARTLAND PARTNERS, L. P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR QUARTERS ENDED MARCH 31, 2002 AND 2001
(amounts in thousands)
(Unaudited)

	Three Months Ended	
	March 31, 2002	March 31, 2001
	-----	-----
Cash Flow from Operating Activities:		
Net (loss) income	\$ (545)	\$ 2,194
Adjustments reconciling net (loss) income to net cash (used in) provided by operating activities:		
Equity in earnings of joint venture	(11)	(90)
Depreciation	16	25
Net change in allowance for claims and liabilities	12	(22)
Net change in assets and liabilities:		
Decrease (increase) in accounts receivable	56	(19)
Decrease in housing inventories, net	606	2,304
Decrease in land held for sale	5	7
Decrease in land held for development	--	299
(Increase) decrease in capitalized predevelopment costs, net	(625)	549
Increase in accounts payable and accrued liabilities	207	372
Net change in other assets and liabilities	131	(653)
	-----	-----
Net cash (used in) provided by operating activities	(148)	4,966
	-----	-----
Cash Flow from Investing Activities:		
Additions to land, building and other, net	--	(7)
Increase in note receivable from affiliate	(333)	(1,380)
	-----	-----
Net cash used in investing activities	(333)	(1,387)
	-----	-----
Cash Flow from Financing Activities:		
Advances (payoffs) on notes payable, net	866	(88)
Redemption of Class A Limited Partner units	(36)	--
Distributions received from joint venture	48	--
Decrease in restricted cash	44	29
Decrease in cash overdraft	(278)	--
	-----	-----
Net cash provided by (used in) financing activities	644	(59)
	-----	-----
Net increase in cash	163	3,520
Cash at beginning of period	103	150
	-----	-----
Cash at end of period	\$ 266	\$ 3,670

=====

See accompanying notes to consolidated financial statements.

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HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

These unaudited Consolidated Financial Statements of Heartland Partners, L.P., a Delaware Limited Partnership, and its subsidiaries (collectively, "Heartland" or the "Company"), have been prepared pursuant to the Securities and Exchange Commission ("SEC") rules and regulations and should be read in conjunction with the financial statements and notes thereto included in the Company's 2001 Annual Report on Form 10-K (the "2001 Form 10-K"). The following Notes to Consolidated Financial Statements highlight significant changes to the Notes included in the 2001 Form 10-K and present interim disclosures as required by the SEC. The accompanying Consolidated Financial Statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature. Certain reclassifications have been made to the prior periods' financial statements in order to conform with current period presentation.

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HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

1. Summary of Significant Accounting Policies

Consolidation

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 March 31, 2002, 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").

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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
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	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.

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HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

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.

Organization

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.

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 were made during the three months ended March 31, 2002.

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 March 31, 2002 and December 31, 2001, the Company had repurchased 49,760 and 47,360 Class A partnership units at a total cost of \$830,000 and \$794,000, respectively. These repurchases are shown as a reduction of Partners' Capital.

As of March 31, 2002 and December 31, 2001, Heartland and CMC loaned HTI an aggregate of \$8,519,000 and \$8,186,000, respectively. 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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HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

At March 31, 2002, HTI owed Heartland and CMC approximately \$8,519,000. 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 \$8,519,000 is recoverable through the Company's security interest in the Class B limited partner interest.

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 March 31, 2002 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. 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.

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HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

Land sales are recognized when the Company has received an adequate cash down

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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.

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.

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 March 31, 2002, the tax basis of the properties and improvements for Federal income tax purposes was greater than their carrying value for financial reporting purposes.

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HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

Property

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

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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. No event occurred during the first quarter of the year 2002 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 first quarter of the year 2002 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 2002 that resulted in an impairment loss being recognized.

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HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

Housing inventories consisted of the following at March 31, 2002 (amounts in thousands):

Land under development.....	\$ 3,335
Direct construction costs.....	3,596
Capitalized project costs.....	3,310

Total	\$10,241
	=====

2. Contingencies

At March 31, 2002, Heartland's allowance for claims and liabilities was

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approximately \$4,300,000 of which approximately \$300,000 was for the resolution of non-environmental claims and \$4,000,000 was for environmental matters. Significant legal proceedings and contingencies are discussed in the 2001 Form 10-K.

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. At March 31, 2002 and December 31, 2001, Heartland's allowance for claims and liabilities for this site was \$1,110,000. At March 31, 2002, interest owed to the Port had been paid to date.

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 bridge to the Company's Menomonee Valley project.

3. Notes Payable

Heartland has a line of credit agreement in the amount of \$5,000,000 with LaSalle National Bank ("LNB"), pursuant to which Heartland granted LNB a first lien on certain parcels of land in Chicago, Illinois, Milwaukee, Wisconsin and Fife, Washington which had a carrying value of \$16,065,000 and \$15,456,000 as of March 31, 2002, and December 31, 2001, respectively. The Company has also pledged as collateral its interest in the Goose Island Joint Venture which has a

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HEARTLAND PARTNERS, L.P. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2002 (Unaudited)

carrying value of \$129,000 and \$166,000 at March 31, 2002, and December 31, 2001, respectively. Also, pursuant to the line of credit agreement, Heartland had pledged cash in the amount of \$1,150,000 as an interest reserve. The loan matured February 28, 2002. Advances against the line of credit bear interest at the prime rate of LNB plus 1.5% (6.25% at March 31, 2002). At March 31, 2002, and December 31, 2001, \$5,000,000 and \$3,500,000, respectively, had been advanced to the Company by LNB against the line of credit. The Company has negotiated with LNB an increase in the line of credit loan amount from \$5,000,000 to \$5,350,000, the release as collateral the parcels of land located in Milwaukee, Wisconsin and Fife, Washington and the release of the interest reserve of \$1,150,000 to Heartland. The documents amending the line of credit have been received by Heartland from LNB and are currently being reviewed by management. The Company anticipates that the documents will be signed.

As of December 8, 2000, Heartland has an agreement for a \$3,000,000 revolving line of credit for the construction of homes in its Longleaf community located

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in Southern Pines, NC with Bank One of Illinois ("Bank One"). Also, on December 8, 2000, Heartland borrowed \$250,000 from Bank One 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 carrying value of the land and housing inventories for these two loans at March 31, 2002, and December 31, 2001, is \$2,723,000 and \$2,938,000, respectively. The line of credit and the \$250,000 loan mature on April 12, 2002, and bear interest at the prime rate (4.75% at March 31, 2002). At March 31, 2002 and December 31, 2001, \$1,112,000 and \$1,358,000, respectively, had been advanced by Bank One to Heartland on these two loans. Heartland has negotiated with Bank One to change the maturity dates of the two loans to April 12, 2003. The documents amending the two loans have been received by the Company from Bank One and are currently being reviewed by management. Heartland has no reason to believe the documents will not be signed.

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. On February 23, 2002, the company modified this loan and changed the maturity date to June 23, 2002. The loan bears interest at the prime rate (4.75% at March 31, 2002). The outstanding loan balance is \$1,500,000 at March 31, 2002 and December 31, 2001.

As of March 31, 2002, Heartland's total consolidated indebtedness was \$7,612,000. This amount is due within one year from May 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.

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HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

4. Related Party Transactions

Heartland has a management agreement with HTII pursuant to which Heartland is required to pay HTII an annual management fee in the amount of \$413,000 for the year 2002. The management fee for the year 2001 was \$425,000. The management agreement terminates on June 27, 2005. The management fee for the first three months of 2002 of \$103,000 has been accrued as an expense and reduced the amount owed Heartland and CMC by HTI.

Under a management services agreement, HTI reimburses CMC for reasonable and necessary costs and expenses for services. These totaled \$165,000 for the three months ended March 31, 2002. Heartland and CMC also make loans to HTI. HTI owed the Company and CMC, in the aggregate, \$8,519,000 and \$8,186,000 as of March 31, 2002, and December 31, 2001, respectively, related to these expenses and loans. On December 29, 2000, HTI executed a line of credit promissory note that is due

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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. 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 principal amount 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 a senior lien and a senior security interest in the Heartland Class B Limited Partnership Interest owned by HTI Class B, LLC.

At March 31, 2002, HTI owed Heartland and CMC approximately \$8,519,000. 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 \$8,519,000 is recoverable through the Company's security interest in the Class B limited partner interest.

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HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

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.

5. Employee Compensation Arrangements

The former President and Chief Executive Officer of CMC, Edwin Jacobson, who retired February 25, 2002, has received from January 1, 2000 to February 28, 2002 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 March 31, 2002, \$170,000 had been accrued as compensation expense under this plan. As of March 31, 2002, \$170,000 had been paid to Mr. Jacobson by CMC. On October 18, 2000, Mr. Jacobson borrowed \$375,000 from CMC, of which approximately \$307,000 remains outstanding at March 31, 2002 and is included as part of accounts receivable at March 31, 2002. The note is

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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, \$68,000 of the above described payments of \$170,000 was applied to the outstanding note balance. Mr. Jacobson continues to receive his salary from 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 the year 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 were computed by multiplying 3% for the year 2001 by the net proceeds from the sale of certain real estate during that year. As of March 31, 2002, \$973,000 had been accrued as compensation expense under the plans. As of March 31, 2002, \$329,000 had been paid to the officers by the Company.

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HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(Unaudited)

6. Subsequent Events

On August 22, 2001, the Company was authorized by its General Partner to repurchase up to 50,000 of its Class A partnership units. As of May 15, 2002, Heartland had repurchased the 50,000 Class A partnership units at a total cost of \$833,000. These repurchases have been shown as a reduction of Partners' Capital.

On April 30, 2002, LNB released the \$1,150,000 interest reserve which was deposited in Heartland's bank account.

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MARCH 31, 2002

Item 2. 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, and elsewhere in this Form 10-Q 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-Q. The Company's actual future results, performance or achievement of results and the value of the partnership Units,

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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 statement in these documents. 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 from operating activities has been derived primarily from proceeds of property sales. Cash was \$1,418,000 (including \$1,152,000 of restricted cash) at March 31, 2002 and \$1,299,000 (including \$1,196,000 of restricted cash) at December 31, 2001.

Net cash used in operating activities was (\$148,000) in the first three months of 2002, compared to \$4,966,000 provided by operating activities in the first three months of 2001 or an increase in net cash used in operating activities of \$5,114,000 between the two three month periods. This is primarily attributable to a decrease from 2000 to 2001 in sales revenue from Kinzie Station Phase I closings of \$5,045,000.

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 March 31, 2002, 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 was pledged as an interest reserve. This \$1,150,000 was released to the Company April 30, 2002. The line of credit matured February 28, 2002. Advances against the line of credit bear interest at the prime rate of LNB plus 1.5% (6.25% at March 31, 2002). At March 31, 2002, \$5,000,000 had been advanced to the Company by LNB against the line of credit. Heartland has negotiated an amendment to the LNB line of credit agreement that extends the maturity date to March 31, 2003, increases the line of credit amount from \$5,000,000 to \$5,350,000, releases as collateral the parcels of land located in Milwaukee, Wisconsin and Fife, Washington and released the interest reserve of \$1,150,000 to the Company. The documents amending the LNB line of credit have been received by the Company and are currently being reviewed by management. Heartland anticipates that the documents will be signed. The consolidated financial statements do not contain any adjustments to reflect the ultimate outcome of this uncertainty.

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MARCH 31, 2002

As of March 31, 2002, Heartland and CMC loaned HTI an aggregate of \$8,519,000. 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 March 31, 2002, HTI owed Heartland and CMC approximately \$8,519,000. 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

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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 \$8,519,000 is recoverable through the Company's security interest in the Class B limited partner interest.

Development Property

At March 31, 2002, property designated for development consisted of 12 sites comprising approximately 520 acres. The book value of this land is \$8,142,000 or an average of \$15,700 per acre. Heartland reviews these properties to determine whether to hold, develop, joint venture or sell. Heartland's objective for these properties is to maximize unitholder value.

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.

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Kinzie Station

Heartland has a 2.68 acre site in the City of Chicago known as Kinzie Station. Zoning approval for the construction of 381 residential units on this 2.68 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 2.68 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.

Kinzie Station Phase I

Kinzie Station Phase I is situated on 1.23 acres. The construction of Kinzie Station Phase I, which is substantially complete, started on October 1, 1998. The Company has closed 160 Tower units and 18 Plaza units during the period May 1, 2000 to March 31, 2002.

Kinzie Station
Phase I
Unit Detail
As of March 31, 2002

Total Number of Units	Sale Contracts To-Date
-----	-----

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Tower Building	163	161
Plaza	24	19
	-----	-----
Total	187	180
	=====	=====

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 March 31, 2002, and changed the maturity date of the loan to February 23, 2002. The maturity date of the loan has been extended to June 23, 2002. The loan bears interest at the prime rate (4.75% at March 31, 2002).

Kinzie Station Phase II

Heartland has a 1.45 acre site in the City of Chicago known as Kinzie Station Phase II. The Company has zoning to construct a 267 unit residential tower building.

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Longleaf

At March 31, 2002, the Company owns 202 lots in its Longleaf community located in Southern Pines, North Carolina. At March 31, 2002, the book value of the lots is \$2,310,000, an average of \$11,400 per lot.

In Longleaf, the Company has closed, as of March 31, 2002, a total of 39 contracts; 2 in 2002, 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 March 31, 2002, the Company has sold 45 homes and 5 lots for these owners since April 1, 1998.

Longleaf Unit Inventory Detail As of March 31, 2002

Model homes	2
Sold home under construction	1
Inventory homes under construction	5
Lots owned	194

Total unit inventory	202
	=====

As of December 8, 2000, Heartland has 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 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

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\$250,000 loan mature April 12, 2002 and bear interest at the prime rate (4.75% at March 31, 2002). At March 31, 2002, \$1,112,000 had been advanced by Bank One to Heartland on these two loans. Heartland has negotiated with Bank One to change the maturity dates of the two loans to April 12, 2003. The documents amending the two loans have been received by the Company from Bank One and are currently being reviewed by management. Heartland has no reason to believe the documents will not be signed. The consolidated financial statements do not contain any adjustments to reflect the ultimate outcome of this uncertainty.

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 March 31, 2002, the buildings had been built and leases had been signed for all of the 265,000 square feet.

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Fife, Washington

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. Development of the property has started during the first quarter of the year 2002.

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.

Osprey Cove

At Osprey Cove in St. Marys, Georgia, Heartland owns 1 unsold lot purchased for \$41,000. 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 March 31, 2002, a total of 68 contracts

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have closed in Osprey; 3 in 2002, 14 in 2001, 16 in 2000, 20 in 1999, 13 in 1998 and 2 in 1997. The First National Bank of St. Marys ("FNB") in Georgia had made two loans of \$170,000 and \$235,000 to the Company. These two loans were paid in full during the quarter ended March 31, 2002.

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Property Sales and Leasing Activities

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.

Heartland's current inventory of land held for sale consists of 13,986 acres located throughout 12 states. The book value of this inventory is approximately \$718,000. 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 properties 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 the Company's sales has slowed over the last seven years due to the less desirable characteristics of the remaining properties.

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.

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.

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

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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.

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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 March 31, 2002, the Company has recorded a liability in the amount of \$4,000,000 for possible environmental liabilities, including legal, remediation and consulting fees. In addition, Heartland has established an allowance for resolution of non-environmental claims of \$300,000.

At March 31, 2002, 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.

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 it 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 in respect of environmental claims has not significantly adversely affected 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.

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Results of Operations

Operations for the first quarters ended March 31, 2002, and 2001, resulted in a net loss of (\$545,000), and net income of \$2,194,000, respectively. For the first quarters ended March 31, 2002, and 2001, the loss allocated to the Class A Limited Partners is (\$537,000), and net income of \$2,161,000, respectively or (\$.26), and \$1.01, respectively per Class A Unit.

The decrease in net income for the first three months of 2002 compared to net income in the first three months of 2001 of \$2,739,000 is attributable to a decrease in the gross profit on property sales of \$3,207,000.

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Total operating expenses were \$826,000 and \$1,545,000 for the first three months ending March 31, 2002, and 2001, respectively. The decrease of \$719,000 is due to decreased sales and marketing expenses of \$654,000 and a reduction in general and administrative expenses of \$65,000.

Economic and Other Conditions Generally

The real estate industry is highly cyclical and is affected by changes in local, national, and global 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 March 31, 2002, Heartland's total consolidated indebtedness was \$7,612,000. This amount is due within one year from May 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.

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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 March 31, 2002 is \$7,612,000. The Company pays interest on its outstanding borrowings under revolving credit

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facilities and fixed loan amounts at the prime rate and the prime rate plus 1.5% and at a fixed rate of 8%. An adverse change of 1.00% in the prime rate would increase the quarterly interest incurred by approximately \$19,000.

The Company does not have any other financial instruments for which there is a significant exposure to interest rate changes.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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MARCH 31, 2002

PART II OTHER INFORMATION

Item 1. Legal Proceedings

At March 31, 2002, Heartland's allowance for claims and liabilities was approximately \$4,300,000. During the three months ended March 31, 2002, an increase of approximately \$12,000 in the provision was recorded in respect to environmental matters. Material 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 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 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 \$1.1 million on or before December 31, 2002, plus interest from January 1, 1999 or, (b) to convey to the Port real property to be agreed upon at a later date. At March 31, 2002, Heartland's allowance for claims

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and liabilities for this site was \$1,110,000. 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.

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Wheeler Pit, Janesville, Wisconsin

In November, 1995, the Company settled a claim with respect to the Wheeler Pit site near Janesville, Wisconsin. The Company's only outstanding obligation under the settlement is to pay 32% of the monitoring costs for twenty-five years beginning in 1997.

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.

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 was 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 or will not 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.

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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.

In 1995, at a 5.95 acre parcel in Minneapolis, Minnesota, environmental sampling 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.

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, reasonably possible losses from these matters should not be material to the Company's results of operations or financial condition.

HEARTLAND PARTNERS, L.P.
MARCH 31, 2002

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

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Exhibit No.	Description
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	None

(b) Reports on Form 8-K;

A Form 8-K was filed by the Company on March 6, 2002 announcing, pursuant to a press release dated February 26, 2002, that Lawrence S. Adelson had been appointed Chief Executive Officer, replacing Edwin Jacobson who had retired February 25, 2002.

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HEARTLAND PARTNERS, L.P.
MARCH 31, 2002

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)

Date: May 15, 2002

By /s/ Lawrence S. Adelson

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

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HEARTLAND PARTNERS, L.P.
MARCH 31, 2002

EXHIBIT INDEX

Exhibit No.	Description
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	None

