HEARTLAND PARTNERS L P
Form 10-Q
May 14, 2003

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, 2003

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 incorporation or organization)	(I.R.S. Employer Identification No.)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No X

HEARTLAND PARTNERS, L.P.
March 31, 2003

INDEX

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HEARTLAND PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS

(amounts in thousands)
(Unaudited)

	March 31, 2003	December 2

Assets:		
Cash	$ 3,092	$
Restricted cash	2	
Accounts receivable (net of allowance of $316 at March 31, 2003 and December 31, 2002)	676	
Due from affiliate (net of allowance of $133 at March 31, 2003 and December 31, 2002)	8,331	8,
Prepaid and other assets	201	
Total	12,302	10,
Property:		
Land	491	1,
Buildings and improvements	634	
Less accumulated depreciation	230	
Net land, buildings and improvements	895	1,
Land held for sale	637	
Housing inventories	4,022	7,
Development land held for sale and development	4,911	4,
Capitalized predevelopment costs	15,477	14,
Net properties	25,942	28,
Total assets	$ 38,244	$ 38,
Liabilities:		
Notes payable	$ 4,636	$ 8,
Accounts payable and accrued expenses	1,126	3,
Accrued real estate taxes	422	
Allowance for claims and liabilities	4,050	4,
Unearned rents and deferred income	1,403	1,
Other liabilities	2,093	2,
Total liabilities	13,730	19,
Partners' capital:		
General Partner	126	
Class A Limited Partners - 2,142 units authorized and issued and 2,092 outstanding at March 31,2003 and December 31, 2002	14,776	9,
Class B Limited Partner	9,612	9,
Total partners' capital	24,514	18,
Total liabilities and partners' capital	$ 38,244	$ 38,

See accompanying notes to consolidated financial statements.

HEARTLAND PARTNERS, L. P.
CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands except per unit data)
(Unaudited)

	For the Three Months Ended March 31, 2003	March 31, 2002
Income:		
Property sales	$ 11,117	$ 1,044
Less: Cost of property sales	3,817	1,044
Gross profit on property sales	7,300	--
Operating Expenses:		
Selling expenses	608	325
General and administrative expenses	894	458
Real estate taxes	81	23
Environmental expenses and other charges	117	20
Total operating expenses	1,700	826
Operating income (loss)	5,600	(826)
Other Income and (Expenses):		
Portfolio income	7	285
Rental income	58	86
Other income	7	29
Depreciation	(17)	(16)
Management fee	(103)	(103)
Total other (loss) income	(48)	281
Net income (loss)	$ 5,552	$ (545)
Net income (loss) allocated to General partner	$ 56	$ (5)
Net income (loss) allocated to Class B limited partner	$ 28	$ (3)
Net income (loss) allocated to Class A limited partners	$ 5,468	$ (537)
Net income (loss) per Class A Limited partnership unit	$ 2.61	$ (0.26)
Weighted average number of Class A limited partnership units outstanding	2,092	2,094

========== ==========

See accompanying notes to consolidated financial statements.

4

HEARTLAND PARTNERS, L. P.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)
(Unaudited)

	For the Three Months Ended	
	March 31, 2003	March 31 2002
Cash Flow from Operating Activities:		
Net income (loss)	$ 5,552	$ (54
Adjustments reconciling net income (loss) to net cash provided by (used in) operating activities:		
Land write off to cost of sales	581	-
Equity in earnings of joint venture	--	(1
Depreciation	17	1
Net change in allowance for claims and liabilities	--	1
Net change in assets and liabilities:		
Decrease in accounts receivable	20	5
Decrease in housing inventories, net	3,649	60
Decrease in land held for sale	8	
Increase in development land held for sale and development, net	(104)	-
Increase in capitalized predevelopment costs, net	(1,394)	(62
(Decrease) increase in accounts payable and accrued liabilities	(2,067)	20
Net change in other assets and liabilities	(273)	13
Net cash provided by (used in) operating activities	5,989	(14
Cash Flow from Investing Activities:		
Increase in note receivable from affiliate	--	(33
Distributions received from joint venture	--	4
Net cash used in investing activities	--	(28
Cash Flow from Financing Activities:		
Advances on notes payable	429	1,64
Payoffs on notes payable	(4,075)	(78
Redemption of Class A Limited Partner units	--	(3
Decrease in restricted cash	40	4
Decrease in cash overdraft	--	(27
Net cash (used in) provided by financing activities	(3,606)	59
Net increase in cash	2,383	16
Cash at beginning of period	709	10
Cash at end of period	$ 3,092	$ 26

========== ==========

See accompanying notes to consolidated financial statements.

HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 2002 Annual Report on Form 10-K (the "2002 Form 10-K").The following Notes to Consolidated Financial Statements highlight significant changes to the Notes included in the 2002 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.

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, 2003, CMC Heartland Partners ("CMC") is an operating general partnership owned 99.99% by Heartland and .01% by HTI Interests, LLC ("HTII"). HTII is the General Partner of Heartland, (in such capacity, the "General Partner"). HTII is a Delaware limited liability company, owned 99.9% by Heartland Technology, Inc. ("HTI"), formerly known as Milwaukee Land Company and .1% by HTI Principals, Inc., a Delaware corporation, owned by four former directors of HTI's Board of Directors and a current director of HTI.

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

HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

COMPANY		YEAR FORMED	BUSINESS PURPOSE
Heartland Development Corporation	("HDC")	1993	General Partner of CMC Heartla
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	Owned the Goose Island Industr
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	Owned 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 development

COMPANY	DEVELOPMENT LOCATION	OWNERSHIP
HDC	Not applicable	100% (1)
CMCLP	Rosemount, Minnesota	100% (2)
CMCI	Chicago,Illinois	100% (3)
CMCII	Chicago,Illinois	100% (3)
CMCIII	Chicago,Illinois	100% (3)
CMCIV	Fife,Washington	100% (3)
CMCV	St. Marys,Georgia	100% (3)
CMCVI	Not Applicable	100% (3)
CMCVII	Southern Pines, North Carolina	100% (3)
CMCVIII	Not Applicable	100% (3)
LCC	Not Applicable	100% (4)
LCL	Not Applicable	100% (4)

(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.

7

HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 ("Class B Interest"). In addition, the partnership agreement provides that certain items of deduction, loss, income and gain may be specially allocated to the Unitholders, 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 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 distributions were made during the three months ended March 31, 2003 or the year 2002.

As of March 31, 2003 and December 31, 2002, Heartland and CMC had loaned HTI an aggregate of $8,464,000. The loans are collateralized by a security interest in the Class B 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's stock is now trading in the over-the-counter market (due to being delisted from the American Stock Exchange) at less than $.01 per share at March 31, 2003. 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, 2003 and December 31, 2002, HTI owed Heartland and CMC approximately $8,464,000. 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 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 negotiating with PG Oldco, Inc. a settlement of this matter. The settlement is likely to involve CMC buying the PG Oldco, Inc. notes for approximately $1,250,000. Heartland has recorded an allowance of approximately $133,000 on the note receivable balance of $8,464,000 based on the proposed terms of the settlement of approximately $1,250,000 and the March 31, 2003 Class B Interest capital account balance of $9,612,000.

Accounts Receivable

The Company provides an allowance for doubtful accounts against the portion of accounts receivable which is estimated to be uncollectible. Accounts receivable in the consolidated balance sheets are shown net of an allowance for doubtful accounts of $316,000 as of March 31, 2003 and December 31, 2002.

Unearned Rents and Deferred Income

Unearned rents and deferred income are cash received from unrelated outside parties for the rental of certain parcels of land or land easements owned by the Company for periods of 20 to 25 years. The amounts received are being amortized over each agreement's rental period.

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.

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. Heartland sold its interest in the Goose Island joint venture to its partners on October 22, 2002.

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 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 collectability of the note and interest receivable from Mr. Jacobson, former President and Chief Executive Officer of CMC, estimated bad debt expense, 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, 2003 and December 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.

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, such as a condemnation proceeding being brought by a governmental agency against the Company or the discovery of an environmental liability related to a particular site, 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. No event occurred during the three months ended March 31, 2003 and 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 three months ended March 31, 2003 and 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 three months ended March 31, 2003 and the year 2002 that resulted in an impairment loss being recognized.

Housing inventories consisted of the following at March 31, 2003 and December 31, 2002 (amounts in thousands):

	March 31, 2003	December 31, 2002
Land under development	$ 2,168	$ 3,118
Direct construction costs	1,563	1,405
Capitalized project costs	291	3,148
Total	$ 4,022	$ 7,671

A reclassification of the costs of Kinzie Station Phase II from housing inventories, December 31, 2002 classification, to development land held for sale and development and capitalized predevelopment costs, March 31, 2003 classification, of $3,815,000 took place during the quarter ending March 31, 2003.

2. Contingencies

At March 31, 2003 and December 31, 2002, Heartland's allowance for claims and liabilities was approximately $4,050,000 of which approximately $50,000 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 2002 Form 10-K.

On December 19, 2002, the Company modified its October 1, 1998 settlement agreement with the Port of Tacoma (the "Port") in which the Port released all claims against the Company and the Company agreed either to (a) pay $1,100,000 on or before December 31, 2003, plus interest from January 1, 1999, or (b) convey real property to be agreed upon at a later date. At March 31, 2003 and December 31, 2002, Heartland's allowance for claims and liabilities for this site was $1,110,000. At March 31, 2003 and December 31, 2002, interest owed to the Port had been paid to date.

In February, 2002, the Company filed suit against the Southeast Wisconsin Professional Baseball District (the "District") in Milwaukee County Circuit Court 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.

On August 19, 2002, the former President and Chief Executive Officer of CMC, Edwin Jacobson, filed two lawsuits against the Company, CMC and certain officers and/or board members. One of the lawsuits alleges CMC violated the terms of his employment contract and that the officers and/or board members interfered with his contract. Mr. Jacobson is seeking compensatory and punitive damages. Mr. Jacobson also asked the court to reinstate his contract and to enjoin the Company from selling property or making distributions to Unitholders until it has appraised its properties and paid him according to the terms of his employment contract. Mr. Jacobson's second lawsuit is for defamation. He alleges he was defamed by statements in a Company press release advising investors of various pending business transactions and describing Heartland's termination of his contract. He is seeking $1,000,000 in compensatory damages and $5,000,000 in punitive damages. Edwin Jacobson v. CMC Heartland Partners et al., Case No. 02 CH 15160, consolidated with Case No. 02 L 010591, Circuit Court of Cook County, Illinois. On October 24, 2002, the Company filed motions to dismiss the lawsuits. On January 3, 2003, Mr. Jacobson filed amended complaints alleging the same and seeking the same relief. On January 31, 2003, the Company filed motions to dismiss the amended lawsuits. CMC is vigorously defending itself and, in the opinion of management, has good defenses against the lawsuits as its actions were consistent with its duties and in conformance with the law. The Company has not recorded a loss contingency related to these actions because at this time it cannot be determined if it is probable that a liability has been incurred and the amount of any possible liability cannot be determined.

On February 28, 2003, in the Superior Court of the State of Delaware , the Company filed suit against the former President and Chief Executive Officer of CMC, Edwin Jacobson, to collect all principal and interest owed the Company, approximately $332,000, related to money borrowed on October 17, 2000 that has not been paid in accordance with the terms of the note.

CMCVII, per the Longleaf lot Purchase and Sale Agreement, dated December 12, 2000, was required on April 1, 2002 and November 1, 2002 to pay $135,000 and $250,000, respectively, to Maples Properties, Inc. ("Maples"), the owner and operator of the golf course and club house located at the Longleaf Country Club in Southern Pines, North Carolina. Since the two payments were not made, this constitutes an event of default under the agreement. The Company believes Maples is in default of its obligations. In addition, the seller has not notified CMCVII that it is in default. The seller would be entitled to seek specific performance and/or other remedies as provided for in the contract. However, due to its belief that Maples has breached the contract, CMCVII does not intend to make these payments at this time.

13

HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Notes Payable

Heartland had a line of credit agreement in the amount of $3,850,000 with LaSalle National Bank ("LNB"). On February 11, 2003, the Company closed on the sale of approximately 3.4 acres of land in Chicago, Illinois at a price of $9,850,000. At that time the outstanding LNB line of credit balance of $3,850,000 was paid in full. The LNB line of credit matured March 31, 2003. At December 31, 2002, LNB had a first lien on a parcel of land in Chicago, Illinois which had a carrying value of $5,304,000. The interest rate on the line of credit was at the prime rate of LNB plus 1.5% (5.75% at March 31, 2003). At March 31, 2003 and December 31, 2002, $0 and $3,850,000, respectively, and had been advanced to the Company by LNB against the line of credit.

As of December 8, 2000, Heartland had an agreement for a $3,000,000 revolving line of credit for the construction of homes in its Longleaf community located in Southern Pines, North Carolina with Bank One of Illinois ("Bank One"). The carrying value of the land and housing inventories for this loan at March 31, 2003 and December 31, 2002, is $2,403,000 and $2,290,000, respectively. The line of credit matured on April 12, 2003, and bears interest at the prime rate (4.25% at March 31, 2003). At March 31, 2003 and December 31, 2002, $1,136,000 and $932,000, respectively, had been advanced by Bank One to Heartland on the line of credit. The Company is currently in negotiations with Bank One to lower the revolving line of credit amount to $2,000,000 and to extend the maturity date of the line of credit. Although the Company has not been notified by Bank One that the Company is being placed in default status, the Company is in default on the loan based on the terms of the underlying debt agreement. Under the loan documents, an uncured default can result in acceleration of the principal, increased interest expense and/or foreclosure against the security for the loan.

On August 22, 2002, Heartland executed documents for a loan of $4,000,000 from Bank One. At that time $500,000 was held in reserve by Bank One to pay future environmental costs if needed. As collateral for this loan, the Company pledged the Fife, Washington property. The loan bears interest at the prime rate plus 1% (5.25% at March 31, 2003), and matured May 1, 2003. The carrying value of the land and development costs collateralizing the loan is $6,170,000 and $6,116,000 at March 31, 2003 and December 31, 2002, respectively. The outstanding loan balance is $3,500,000 at March 31, 2003 and December 31, 2002. The Company is currently in negotiations with Bank One to lower the loan amount to $3,500,000 and to extend the maturity date of the loan. Although the Company has not been notified by Bank One that the Company is being placed in default status, the Company is in default on the loan based on the terms of the underlying debt agreement. Under the loan documents, an uncured default can result in acceleration of the principal, increased interest expense and/or foreclosure against the security for the loan.

As of March 31, 2003, Heartland's total consolidated indebtedness was $4,636,000, which as of May 1, 2003 is past due. 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 financial condition and results of operations. Management does not intend to abandon any projects.

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 years 2003 and 2002. The management agreement terminates on June 27, 2005.

Under a management services agreement, HTI was reimbursing CMC for reasonable and necessary costs and expenses for services. These totaled approximately $165,000 for the three months ended March 31, 2002. Effective April 1, 2002, CMC stopped the reimbursement of management services, as well as the accrual of interest on the outstanding note receivable balance. Heartland stopped these accruals because of the uncertainty related to the competing interests in the Collateral (see Note 1 to the Consolidated Financial Statements and the next paragraph) and the uncertainty concerning the continued existence of HTI as a going concern. HTI's stock is now trading in the over-the-counter market (due to being delisted from the American Stock Exchange) at less than $.01 per share as of March 31, 2003.

At March 31, 2003 and December 31, 2002, HTI owed Heartland and CMC approximately $8,464,000. 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 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. Because of the competing interests in the Collateral, Heartland is negotiating with PG Oldco, Inc. a settlement of this matter. The settlement is likely to involve CMC buying the PG Oldco, Inc. notes for approximately $1,250,000. Heartland has recorded an allowance of approximately $133,000 on the note receivable balance of $8,464,000 based on the proposed terms of the settlement of approximately $1,250,000 and the March 31, 2003 Class B Interest capital account balance of $9,612,000.

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.

HEARTLAND PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Employee Compensation Arrangements

Effective March 1, 2002, an employment agreement with Lawrence S. Adelson, Chief Executive Officer of CMC, was approved by the HTII Board of Managers. The term of the employment agreement is from March 1, 2002 to June 27, 2005 and his salary is $200,000 per year. His incentive compensation is the economic (but not tax) equivalent of ownership of 100,000 (non-voting) Heartland Class A Partnership Units and is payable at the time of any distributions to the Unitholders. The phantom Units awarded under the incentive compensation plan is accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. No compensation expense is recognized in the consolidated statements of operations for the three months ended March 31, 2003. Compensation expense is recognized when the amount of the underlying distribution is probable and estimable.

Effective January 1, 2000, the Company approved the CMC Heartland Partners Incentive Plan ("CMC Plan") to provide incentives to attract, retain or motivate highly competent employees of the Company. The aggregate benefits payable under the CMC Plan were 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. Effective December 31, 2001, the CMC Plan was amended to vest benefits earned under the CMC Plan as of December 31, 2001 and provides that earned benefits shall be paid at the time of a cash distribution to the Unitholders. The CMC Plan was then terminated effective December 31, 2001. As of March 31, 2003, $973,000 had been accrued as compensation expense under the plans of which $403,000 has been paid to the officers by the Company.

Effective January 1, 2002, the CMC Heartland Partners 2002 Incentive Plan ("2002 CMC Plan") was approved by the Company. The aggregate benefits payable under the 2002 CMC Plan shall be computed by multiplying 2% by the net proceeds from the sale of certain land parcels for the period January 1, 2002 to December 31, 2004. Three officers of the Company are eligible for benefits under the 2002 CMC Plan. As of March 31, 2003, $236,000 has been accrued as compensation expense under the 2002 CMC Plan of which $150,000 has been paid to the three officers. Also, the 2002 CMC Plan granted three officers the economic (but not tax) equivalent of ownership of 10,000 (non-voting) Heartland Class A Partnership Units payable at the time of any distributions to the Unitholders. The phantom Units awarded under the CMC Plan is accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. No compensation expense related to these phantom Units has been recognized in the consolidated statements of operations for the three months ended March 31, 2003. Compensation expense is recognized when the amount of the underlying distribution is probable and estimable.

6. Subsequent Events

On April 23, 2003, Heartland entered into a contract with a residential builder to sell them an approximately 1.45 acre parcel of land, Kinzie Station Phase II, located in Chicago, Illinois for approximately $4,200,000. The contract specifies a due diligence period and contains other conditions that are customary in such contracts.

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". Forward-looking statements are not guarantees of future performance. They involve risks and uncertainties that are difficult to predict. The Company's actual future results, performance or achievement of results and the value of the partnership Units may differ materially from what is forecast in forward-looking statements. We caution you not to put undue reliance on any forward-looking statement in these documents. The Company does not undertake any obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

Summary of Critical Accounting Policies

Accounts Receivable

The Company provides an allowance for doubtful accounts against the portion of accounts receivable which is estimated to be uncollectible. Accounts receivable in the consolidated balance sheets are shown net of an allowance for doubtful accounts of $316,000 as of March 31, 2003 and December 31, 2002.

Unearned Rents and Deferred Income

Unearned rents and deferred income are cash received from unrelated outside parties for the rental of certain parcels of land or land easements owned by the Company for periods of 20 to 25 years. The amounts received are being amortized over each agreement's rental period.

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.

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. Heartland sold its interest in the Goose Island joint venture to its partners on October 22, 2002.

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 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 collectability of the note and interest receivable from Mr. Jacobson, former President and Chief Executive Officer of CMC, estimated bad debt expense, 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, 2003 and December 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.

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, such as a condemnation proceeding being brought by a governmental agency against the

Company or the discovery of an environmental liability related to a particular site, 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. No event occurred during the three months ended March 31, 2003 and 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 three months ended March 31, 2003 and 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 three months ended March 31, 2003 and the year 2002 that resulted in an impairment loss being recognized.

Housing inventories consisted of the following at March 31, 2003 and December 31, 2002 (amounts in thousands):

	March 31, 2003	December 31, 2002
Land under development	$ 2,168	$ 3,118
Direct construction costs	1,563	1,405
Capitalized project costs	291	3,148
Total	$ 4,022	$ 7,671

A reclassification of the costs of Kinzie Station Phase II from housing inventories, December 31, 2002 classification, to development land held for sale and development and capitalized predevelopment costs, March 31, 2003 classification, of $3,815,000 took place during the quarter ending March 31, 2003.

Liquidity and Capital Resources

Cash flow from operating activities has been derived primarily from proceeds of property sales. Cash was $3,094,000 (including $2,000 of restricted cash) at March 31, 2003 and $751,000 (including $42,000 of restricted cash) at December 31, 2002.

Net cash provided by operating activities was $5,989,000 in the first three months of 2003, compared to ($148,000) used in operating activities in the first three months of 2002 or an increase in net cash provided by operating activities of $6,137,000 between the two three month periods. This is primarily attributable to an increase from 2002 to 2003 in gross profit from the closing of sales of $7,300,000.

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 December 31, 2002, the Company had a line of credit with LaSalle National Bank ("LNB") in the amount of $3,850,000. On February 11, 2003, the Company closed on the sale of approximately 3.4 acres of land in Chicago, Illinois at a price of $9,850,000. At that time the outstanding LNB line of credit balance of $3,850,000 was paid in full. The line of credit matured March 31, 2003. The outstanding LNB line of credit is $0 at March 31, 2003.

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. No assurance can be given that such financing will be available or, if available, will be on terms favorable to Heartland. The consolidated financial statements do not contain any adjustments to reflect the ultimate outcome of this uncertainty. Management does not intend to abandon any projects.

As of May 1, 2003 two loans with Bank One of Illinois totalling $4,636,000 are past due. The Company is currently negotiating to extend the maturity dates of these loans. While the Company has no reason to believe the extensions will not be approved, there can be no assurance that the extensions will be granted. The consolidated financial statements do not contain any adjustments to reflect the ultimate outcome of this uncertainty.

At March 31, 2003, HTI owed Heartland and CMC approximately $8,464,000. 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 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 (the "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 negotiating with PG Oldco, Inc. a settlement of this matter. The settlement is likely to involve CMC buying the PG Oldco, Inc. notes for approximately $1,250,000. Heartland has recorded an allowance of approximately $133,000 on the note receivable balance of $8,464,000 based on the proposed terms of the settlement of approximately $1,250,000 and the March 31, 2003 Class B Interest capital account balance of $9,612,000.

Development Property

At March 31, 2003, property designated for sale and development consisted of 9 sites comprising approximately 501 acres. The book value of this land is $7,080,000 or an average of $14,100 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. At this time, Heartland is focusing on raising cash by selling properties.

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

Heartland has a 2.68 acre site in the City of Chicago known as Kinzie Station Phase I and Phase II. 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 5 acres of land and 4 acres of air rights adjacent to Kinzie Station Phase I and II ("Kinzie Station North"). Of the 5 acres, approximately 3 acres are currently zoned for residential units, a food store and a public park. A consortium of residential developers has the Kinzie Station North residential acreage under contract. On February 11, 2003, the sale of two parcels was closed for $9,850,000. The closing of the third parcel is contingent on the vacation of a city street by the City of Chicago. Management believes that this vacation could take place during the year 2003. The Company has an agreement to sell the food store site to a retail developer. The closing of this sale is contingent on certain governmental approvals, which could take place in 2003.

The remaining approximately 2 acres the Company owns in Chicago is zoned for commercial use. The Company has an agreement to sell these 2 acres to a commercial user, subject to various contingencies.

Kinzie Station Phase I

Kinzie Station Phase I is situated on 1.23 acres. The construction of Kinzie Station Phase I, which is complete, started on October 1, 1998. The Company has closed 162 Tower units and 24 Plaza units during the period May 1, 2000 to December 31, 2002; 8 in 2002, 38 in 2001 and 140 in 2000.

Kinzie Station
Phase I

Unit Detail
As of March 31, 2003

	Total Number Of Units	Sale Contracts To-Date
Tower Building	163	162
Plaza	24	24
Total	187	186

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. On April 23, 2003, the Company signed a contract to sell the property, subject to various contingencies.

Longleaf

At March 31, 2003, the Company owns 198 lots in its Longleaf community located in Southern Pines, North Carolina. At March 31, 2003, the book value of the lots is $2,166,000, an average of $10,900 per lot.

In Longleaf, the Company has closed as of March 31, 2003, a total of 49 contracts; 3 in 2003, 9 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, 2003, the Company has sold 53 homes and 5 lots for these owners since April 1, 1998.

Longleaf
Unit Inventory Detail
As of March 31, 2003

Model homes	2
Sold homes under construction	2
Inventory homes under construction	5
Lots owned	189
Total unit inventory	198

As of December 8, 2000, Heartland had 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"). The revolving line of credit matured April 12, 2003 and bears interest at the prime rate (4.25% at March 31, 2003). At March 31, 2003, $1,136,000 had been advanced by Bank One to Heartland on the line of credit. The Company is currently in negotiations with Bank One to reduce the revolving line of credit amount to $2,000,000 and to extend the maturity date of the line of credit. While the Company has no reason to believe the decrease in the amount of the revolving line of credit and the extension of the credit facility will not be approved by Bank One, there can be no assurance the contemplated decrease and extension will be given. The consolidated financial statements do not contain any adjustments to reflect the ultimate outcome of this uncertainty.

CMCVII, per the Longleaf lot Purchase and Sale Agreement, dated December 12, 2000, was required on April 1, 2002 and November 1, 2002 to pay $135,000 and $250,000, respectively, to Maples Properties, Inc. ("Maples"), the owner and operator of the golf course and club house located at the Longleaf Country Club in Southern Pines, North Carolina. Since the two payments were not made, this constitutes an event of default under the agreement. The Company believes Maples is in default of its obligations. In addition, the seller has not notified CMCVII that it is in default. The seller would be entitled to seek specific performance and/or other remedies as provided for in the contract. However, due to its belief that Maples has breached the contract, CMCVII does not intend to make these payments at this time.

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. Development of the property was started during the first quarter of the year 2002. 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 2003.

On August 22, 2002, Heartland executed documents for a loan of $4,000,000 from Bank One. At that time Bank One reserved $500,000 to pay future environmental costs if needed. As collateral for this loan, the Company pledged the Fife, Washington property. The loan bears interest at the prime rate plus 1% (5.25% at March 31, 2003), and matured May 1, 2003. The outstanding loan balance is $3,500,000 at March 31, 2003. The Company is currently in negotiations with Bank One to reduce the loan amount to $3,500,000 and to extend the maturity date of the loan. While the Company has no reason to believe the decrease in the loan amount and the extension of the loan will not be approved by Bank One, there can be no assurance the contemplated decrease and extension will be given. The consolidated financial statements do not contain any adjustments to reflect the ultimate outcome of this uncertainty.

On December 19, 2002, the Company modified its October 1, 1998 settlement agreement with the Port of Tacoma (the "Port") in which the Port released all claims against the Company and the Company agreed either to (a) pay $1,100,000 on or before December 31, 2003, plus interest from January 1, 1999, or (b) convey real property to be agreed upon at a later date. At March 31, 2003 and December 31, 2002, Heartland's allowance for claims and liabilities for this site was $1,110,000. At March 31, 2003, interest owed to the Port had been paid to date.

On March 31, 2003, the Company signed a contract to sell the Fife, Washington property to a home builder. The contract is subject to various contingencies. Closings would occur in July 2003, December 2003 and December 2004.

Menomonee Valley

The Company owns approximately 152 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

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 receives 2/3 of the proceeds of any sale.

Heartland's current inventory of land held for sale consists of approximately 13,763 acres located throughout 12 states. The book value of this inventory is approximately $637,000 at March 31, 2003. 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 individual parcels are held at a low book value and the Company anticipates that the sale of its remaining parcels may extend beyond the year 2004. The Company is also exploring the sale of these properties as a whole to a third party.

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.

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. 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.

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, 2003, the Company has recorded a liability of approximately $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 approximately $50,000.

At March 31, 2003, 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 may or may not have a significant adverse effect on Heartland's financial condition or results of operations.

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.

Results of Operations

Operations for the three months ended March 31, 2003 and 2002, resulted in a net income of $5,552,000 and a net loss of ($545,000), respectively. For the three months ended March 31, 2003 and 2002, the net income allocated to the Class A Limited Partners is $5,468,000, and the net loss is ($537,000), respectively or $2.61 and ($0.26), respectively per Class A Unit.

The increase in net income for the first three months of 2003 compared to the net (loss) in the first three months of 2002 of $6,097,000 is primarily attributable to an increase in the gross profit on property sales from 2002 to 2003 of $7,300,000.

Total operating expenses were $1,700,000 and $826,000 for the three months ending March 31, 2003 and 2002, respectively. The increase of $874,000 is primarily due to increased sales and marketing expenses of $283,000 and increased general and administrative expenses of $436,000. The increase in sales and marketing expenses is primarily attributable to the payment of a commission to an outside broker on the Kinzie North 3.4 acres closing. At this time, Heartland is focusing on raising cash by selling properties. The increase in general and administrative expenses is primarily attributable to an increase in interest and legal expenses. Costs that were capitalized in prior periods are now being expensed since the properties are now under contract or for sale.

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 condition and results of operations 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, 2003, Heartland's total consolidated indebtedness was $4,636,000, which as of May 1, 2003 is past due. 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 financial condition and results of operations. Management does not intend to abandon any projects.

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, 2003 is $4,636,000. The Company pays interest on its outstanding borrowings under revolving credit facilities and fixed loan amounts at the prime rate, the prime rate plus 1% and 1.5%, and at a fixed rate of 7.5%. An adverse change of 1.00% in the prime rate would increase the quarterly interest incurred by approximately $12,000.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".

Item 4. Controls and Procedures

CEO and CFO Certifications

This quarterly report contains two separate forms of certifications of the Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"). The first form of certification, appearing immediately following the Signatures section of this quarterly report is required by SEC rules promulgated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (the "302 Certifications"). In the 302 Certifications, there are several certifications made by the CEO and CFO relating to the Company's disclosure controls and procedures and internal controls. This section of this quarterly report should be read in conjunction with the 302 Certifications relating to the Company's disclosure controls and procedures and the Company's internal controls.

Evaluation of Disclosure Controls and Procedures

Within 90 days prior to the filing of this quarterly report (the "Evaluation Date"), the Company's management, under the supervision and with the participation of the CEO and the CFO, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures.

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in the Company's reports filed under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Internal Controls

The Company's management also evaluated the effectiveness of the Company's internal controls. Internal controls are procedures which are designed with the objective of providing reasonable assurance that (1) the Company's transactions are properly authorized; (2) the Company's assets are safeguarded against unauthorized or improper use; and (3) the Company's transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

In accord with SEC requirements, the CEO and CFO note that, since the Evaluation Date, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

Limitations on the Effectiveness of Controls

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system will be subject to various limitations, such as resource constraints, expertise of personnel and cost-benefit constraints. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Conclusion

Based on management's review of the Company's disclosure controls and procedures and internal controls, our CEO and CFO have concluded that, subject to the limitations noted above, the Company's disclosure controls are effective to ensure that material information relating to the Company is made known to management, including the CEO and CFO, particularly during the period when the Company's periodic reports are being prepared, and that the Company's internal controls are effective to provide reasonable assurance that the Company's transactions are recorded as necessary to permit preparation of its financial statements in conformity with generally accepted accounting principles.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

At March 31, 2003, Heartland's allowance for claims and liabilities was approximately $4,050,000. During the three months ended March 31, 2003, the Company incurred approximately $117,000 in expenses 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 December 19, 2002, in which the Port released all claims and the Company agreed either to, (a) pay $1,100,000 on or before December 31, 2003, 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, 2003, interest owed to the Port had been paid to date. At March 31, 2003, Heartland's allowance for claims 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.

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.

Other 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 eleven 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.

Environmental sampling in 1995, at a 4.99 acre parcel in Minneapolis, Minnesota, 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. The Company filed suit against the former lessees of the site in the United States District of Minnesota in July, 2002.

Sampling performed in November, 2000, has indicated the presence of solvents in the soil and 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.

Edwin Jacobson Litigation

On August 19, 2002, the former President and Chief Executive Officer of CMC, Edwin Jacobson, filed two lawsuits against the Company, CMC and certain officers and/or board members. One of the lawsuits alleges CMC violated the terms of his employment contract and that the officers and/or board members interfered with his contract. Mr. Jacobson is seeking compensatory and punitive damages. Mr. Jacobson also asked the court to reinstate his contract and to enjoin the Company from selling property or making distributions to Unitholders until it has appraised its properties and paid him according to the terms of his employment contract. Mr. Jacobson's second lawsuit is for defamation. He alleges he was defamed by statements in a Company press release advising investors of various pending business transactions and describing Heartland's termination of his contract. He is seeking $1,000,000 in compensatory damages and $5,000,000 in punitive damages. Edwin Jacobson v. CMC Heartland Partners et al., Case No. 02 CH 15160, consolidated with Case No. 02 L 010591, Circuit Court of Cook County, Illinois. On October 24, 2002, the Company filed motions to dismiss the lawsuits. On January 3, 2003, Mr. Jacobson filed amended complaints alleging the same and seeking the same relief. On January 31, 2003, the Company filed motions to dismiss the amended lawsuits. CMC is vigorously defending itself and, in the opinion of management, has good defenses against the lawsuits as its actions were consistent with its duties and in conformance with the law. The Company has not recorded a loss contingency related to these actions because at this time it cannot be determined if it is probable that a liability has been incurred and the amount of any possible liability cannot be determined.

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.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit No.	Description
99.07	Certification by Lawrence S. Adelson, Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated May 15, 2003 (filed herewith).

99.08 Certification by Daniel L. Bernardi, Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated May 15, 2003 (filed herewith).

(b) Reports on Form 8-K;

None.

HEARTLAND PARTNERS, L.P.
MARCH 31, 2003

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, 2003

By /s/ Lawrence S. Adelson

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

CERTIFICATIONS

I, Lawrence S. Adelson, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Heartland Partners, L.P.;

2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6) The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By /s/ Lawrence S. Adelson

Lawrence S. Adelson
Chief Executive Officer

I, Daniel L. Bernardi, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Heartland Partners, L.P.;

2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6) The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By /s/ Daniel L. Bernardi

Daniel L. Bernardi
Chief Financial Officer

HEARTLAND PARTNERS, L.P.
MARCH 31, 2003

EXHIBIT INDEX

Exhibit No.	Description
99.07	Certification by Lawrence S. Adelson, Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated May 15, 2003.
99.08	Certification by Daniel L. Bernardi, Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated May 15, 2003.