HEARTLAND PARTNERS L P
Form 10-Q
August 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 June 30, 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

1

HEARTLAND PARTNERS, L.P.
June 30, 2003

INDEX

PART I. FINANCIAL INFORMATION

Item 1 Financial Statements

Consolidated Balance Sheets..............................3

Consolidated Statements of Operations....................4

Consolidated Statements of Cash Flows....................5

Notes to Consolidated Financial Statements................6

Item 2 Management's Discussion and Analysis of Financial
Condition and Results of Operations...........................18

Item 3 Quantitative and Qualitative Disclosures About Market Risk.....29

Item 4 Controls and Procedures.......................................30

PART II. OTHER INFORMATION

Item 1 Legal Proceedings...31

Item 6 Exhibits and Reports on Form 8-K..............................35

Signatures...36

Certifications Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002.............................36

2

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HEARTLAND PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS

(amounts in thousands)
(Unaudited)

	June 30, 2003	December 31, 2002
Assets:		
Cash	$ 1,688	$ 709
Restricted cash	9	42
Accounts receivable (net of allowance of $316 at June 30, 2003 and December 31, 2002)	523	696
Due from affiliate (net of allowance of $133 at June 30, 2003 and December 31, 2002)	9,601	8,331
Prepaid and other assets	115	378
Total	11,936	10,156
Property:		
Land	491	1,072
Buildings and improvements	634	634
Less accumulated depreciation	246	213
Net land, buildings and improvements	879	1,493
Land held for sale	633	645
Housing inventories	3,639	7,671
Development land held for sale and development	4,911	4,807
Capitalized predevelopment costs	15,497	14,083
Net properties	25,559	28,699
Total assets	$ 37,495	$ 38,855
Liabilities:		
Notes payable	$ 5,105	$ 8,282
Accounts payable and accrued expenses	1,126	3,193
Accrued real estate taxes	517	789
Allowance for claims and liabilities	4,071	4,050
Unearned rents and deferred income	1,378	1,429
Other liabilities	2,087	2,150
Total liabilities	14,284	19,893
Partners' capital:		
General Partner	112	70
Class A Limited Partners - 2,142 units authorized and issued and 2,092 outstanding at June 30,2003 and December 31, 2002	13,494	9,308
Class B Limited Partner	9,605	9,584
Total partners' capital	23,211	18,962
Total liabilities and partners' capital	$ 37,495	$ 38,855

See accompanying notes to consolidated financial statements.

3

HEARTLAND PARTNERS, L. P.
CONSOLIDATED STATEMENTS OF OPERATIONS

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

	For the Three Months Ended June 30, 2003	For the Three Months Ended June 30, 2002	For the Six Months June 30, 2003	Ju
Income:				
Property sales	$ 1,314	$ 2,488	$ 12,431	$
Less: Cost of property sales	1,046	1,906	4,863	
Gross profit on property sales	268	582	7,568	
Operating Expenses:				
Selling expenses	440	312	1,048	
General and administrative expenses	787	652	1,567	
Interest expense	92	15	206	
Real estate taxes	86	84	167	
Environmental expenses and other charges	100	7	217	
Total operating expenses	1,505	1,070	3,205	
Operating (loss) income	(1,237)	(488)	4,363	
Other Income and (Expenses):				
Portfolio income	8	13	15	
Rental income	29	108	87	
Other income	16	61	23	
Depreciation	(16)	(16)	(33)	
Management fee	(103)	(103)	(206)	
Total other (loss) income	(66)	63	(114)	
Net (loss) income	$ (1,303)	$ (425)	$ 4,249	$
Net (loss) income allocated to General partner	$ (13)	$ (4)	$ 42	$
Net (loss) income allocated to Class B limited partner	$ (7)	$ (2)	$ 21	$
Net (loss) income allocated to				

Class A limited partners	$ (1,283)	$ (419)	$ 4,186	$
Net (loss) income per Class A Limited partnership unit	$ (0.61)	$ (0.20)	$ 2.00	$
Weighted average number of Class A limited partnership units outstanding	2,092	2,093	2,092	

See accompanying notes to consolidated financial statements.

4

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

(amounts in thousands)
(Unaudited)

	For the S June 30, 2003
Cash Flow from Operating Activities:	
Net income (loss)	$ 4,249
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	--
Depreciation	33
Net change in allowance for claims and liabilities	21
Net change in assets and liabilities:	
Decrease (increase) in accounts receivable	173
Decrease in housing inventories, net	4,032
Decrease in land held for sale	12
Increase in development land held for sale and development, net	(104
Increase in capitalized predevelopment costs, net	(1,414
(Decrease) increase in accounts payable and accrued liabilities	(2,067
Net change in other assets and liabilities	(123
Net cash provided by (used in) operating activities	5,393
Cash Flow from Investing Activities:	
Increase in note receivable from affiliate	--
Purchase PG Oldco, Inc. Notes	(770
Distributions received from joint venture	--
Net cash used in investing activities	(770
Cash Flow from Financing Activities:	
Advances on notes payable	868
Payoffs on notes payable	(4,545

Redemption of Class A Limited Partner units	--
Decrease in restricted cash	33
Decrease in cash overdraft	--
Net cash (used in) provided by financing activities	(3,644
Net increase in cash	979
Cash at beginning of period	709
Cash at end of period	$ 1,688
Non-cash Activities:	
Note payable to PG Oldco, Inc. for purchase of HTI promissory notes	$ 500

See accompanying notes to consolidated financial statements.

5

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 June 30, 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:

6

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.

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 six months ended June 30, 2003 or the year 2002.

As of June 30, 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 June 30, 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.

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 had a security interest in the Collateral and had 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. had 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 on May 23, 2003 purchased from PG Oldco, Inc. the notes owed by HTI aggregating $2,200,000 in principal amount for approximately $1,270,000. The purchase price consisted of $770,000 in cash paid on May 23, 2003 and a note payable for $500,000 due October 31, 2003 that bears interest at 5% compounded quarterly. The purchase price of $1,270,000 was recorded as an increase in Due from Affiliate. At June 30, 2003, HTI owed Heartland and CMC approximately $9,734,000. Heartland has recorded an allowance of approximately $133,000 on the note receivable balance of $9,734,000 based on the June 30, 2003 Class B Interest capital account balance of $9,605,000.

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 June 30, 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.

(Unaudited)

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 June 30, 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.

(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, 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 six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 2003 and the year 2002 that resulted in an impairment loss being recognized.

Housing inventories consisted of the following at June 30, 2003 and December 31, 2002 (amounts in thousands):

	June 30, 2003	December 31, 2002
Land under development	$ 2,123	$ 3,118
Direct construction costs	1,268	1,405

Capitalized project costs	248	3,148
Total	$ 3,639	$ 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, June 30, 2003 classification, of $3,815,000 took place during the six months ending June 30, 2003.

2. Contingencies

At June 30, 2003 and December 31, 2002, Heartland's allowance for claims and liabilities was approximately $4,071,000 of which approximately $50,000 was for the resolution of non-environmental claims and $4,021,000 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 June 30, 2003 and December 31, 2002, Heartland's allowance for claims and liabilities for this site was $1,110,000. At June 30, 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 was for defamation. He alleged 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 was 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. On May 29, 2003, the court dismissed with prejudice the defamation lawsuit against the Company, CMC and certain officers and/or board members. At the same time, the court dismissed

with prejudice Mr. Jacobson's motion to enjoin the Company from selling its real estate. Mr. Jacobson has filed a motion for reconsideration of the dismissals. CMC is vigorously defending itself against the remaining lawsuit and, in the opinion of management, has good defenses against the one remaining lawsuit as its actions were consistent with its duties and in conformance with the law. The Company has not recorded a loss contingency related to this action 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. In June 2003, the Company's motion for summary judgement was denied by the Superior Court of the State of Delaware and the court granted Mr. Jacobson's motion for stay pending the litigation described in the preceding paragraph. The Company has appealed this decision.

CMCVII, per the Longleaf lot Purchase and Sale Agreement, dated December 12, 2000, was required on April 1, 2002, November 1, 2002 and April 1, 2003 to pay $135,000, $250,000 and $135,000, 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 three 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, Longleaf Associates Limited Partnership ("LALP"), the seller of the Longleaf lots, has not notified CMCVII that it is in default. LALP 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. On June 19, 2003, Maples included CMCVII as a defendant in a lawsuit Maples filed against LALP in the North Carolina General Court of Justice Superior Court Division of Moore County for breach of contract. Maples is seeking $3,515,000 in compensatory damages from the defendants. CMCVII is vigorously defending itself against this action and at this time the Company has not recorded a loss contingency because it cannot be determined if it is a probable that a liability has been incurred and the amount of any possible liability cannot be determined. Also, management is not able to express an opinion on whether this action will or will not adversely affect the Company's future financial condition or results of operations.

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.

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"). Effective April 23, 2003, the revolving line of credit was reduced to $2,250,000. The carrying value of the land and housing inventories for this loan

at June 30, 2003 and December 31, 2002, is $2,234,000 and $2,290,000, respectively. The line of credit matures on December 31, 2003 and bears interest at the prime rate (4.0% at June 30, 2003). At June 30, 2003 and December 31, 2002, $1,105,000 and $932,000, respectively, had been advanced by Bank One to Heartland on the line of credit.

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% (5.0% at June 30, 2003), and matures August 31, 2003. The carrying value of the land and development costs collateralizing the loan is $6,190,000 and $6,116,000 at June 30, 2003 and December 31, 2002, respectively. The outstanding loan balance is $3,500,000 at June 30, 2003 and December 31, 2002.

On May 23, 2003, the Company purchased notes (see Note 1 to the Consolidated Financial Statements) issued by HTI to PG Oldco, Inc. for $770,000 in cash and a note payable for $500,000, which bears interest at 5% and is due October 31, 2003. The $500,000 promissory note dated October 22, 2002 granted to CMCII by Goose, LLC related to the sale of the Company's interest in the Goose Island joint venture to its partners on October 22, 2002 has been pledged as collateral for the $500,000 PG Oldco, Inc. note payable. The outstanding note payable balance is $500,000 at June 30, 2003.

As of June 30, 2003, Heartland's total consolidated indebtedness was $5,105,000, which is due within one year. 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 June 30, 2003.

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

(Unaudited)

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 had a security interest in the Collateral and had commenced steps to protect its interest. Because of the competing interests in the Collateral, Heartland on May 23, 2003 purchased from PG Oldco, Inc. the notes owed by HTI aggregating $2,200,000 in principal amount for approximately $1,270,000. The purchase price consisted of $770,000 in cash paid on May 23, 2003 and a note payable for $500,000 due October 31, 2003 that bears interest at 5% compounded quarterly. The purchase price of $1,270,000 was recorded as an increase in Due from Affiliate. At June 30, 2003, HTI owed Heartland and CMC approximately $9,734,000. Heartland has recorded an allowance of approximately $133,000 on the note receivable balance of $9,734,000 based on the June 30, 2003 Class B Interest capital account balance of $9,605,000.

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.

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 six months ended June 30, 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 June 30, 2003, $973,000 had been accrued as compensation expense under the plans of which $481,000 has been paid to the officers by the Company.

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

(Unaudited)

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 June 30, 2003, $239,000 has been accrued as compensation expense under the 2002 CMC Plan of which $157,000 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 six months ended June 30, 2003. Compensation expense is recognized when the amount of the underlying distribution is probable and estimable.

6. Subsequent Events

On June 10, 2003, the Redevelopment Authority of the City of Milwaukee, ("RACM") delivered to the Company an appraisal of the Company's approximately 152 acres of property in the Menomonee Valley in Milwaukee as an initial step in RACM's condemnation of the property. The RACM appraisal valued the property at $3,550,000. On July 30, 2003, the Company received $3,550,000 and a release for all environmental matters related to the property from RACM and conveyed title to the property to RACM. The Company and RACM have agreed to negotiate the amount of additional compensation due from RACM to the Company. The Company has reserved the right to bring suit for additional consideration. The carrying amount of the Menomonee property is greater than the $3,550,000 initially received from RACM. Any additional amount to be received by the Company is uncertain at this time, however, management believes the total carrying value is recoverable. No impairment loss has been reflected in the consolidated financial statements at June 30, 2003.

On August 11, 2003, the Company declared a $1.05 per unit cash distribution. The cash distribution will be payable on September 15, 2003 to Unitholders of record at August 29, 2003.

HEARTLAND PARTNERS, L.P.
JUNE 30, 2003

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 June 30, 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 June 30, 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 six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 2003 and the year 2002 that resulted in an impairment loss being recognized.

Housing inventories consisted of the following at June 30, 2003 and December 31, 2002 (amounts in thousands):

	June 30, 2003	December 31, 2002
Land under development	$ 2,123	$ 3,118
Direct construction costs	1,268	1,405
Capitalized project costs	248	3,148
Total	$ 3,639	$ 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, June 30, 2003 classification, of $3,815,000 took place during the six months ending June 30, 2003.

Liquidity and Capital Resources

Cash flow from operating activities has been derived primarily from proceeds of property sales. Cash was $1,697,000 (including $9,000 of restricted cash) at June 30, 2003 and $751,000 (including $42,000 of restricted cash) at December 31, 2002.

Net cash provided by operating activities was $5,393,000 in the first six months of 2003, compared to ($896,000) used in operating activities in the first six months of 2002 or an increase in net cash provided by operating activities of $6,289,000 between the two six month periods. This is primarily attributable to

an increase from 2002 to 2003 in gross profit from the closing of sales of $6,986,000.

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.

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.

21

HEARTLAND PARTNERS, L.P.
JUNE 30, 2003

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 had a security interest in the Collateral and had 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. had 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 on May 23, 2003 purchased from PG Oldco, Inc. the notes owed by HTI aggregating $2,200,000 in principal amount for approximately $1,270,000. The purchase price consisted of $770,000 in cash paid on May 23, 2003 and a note payable for $500,000 due October 31, 2003 that bears interest at 5% compounded quarterly. The purchase price of $1,270,000 was recorded as an increase in Due from Affiliate. At June 30, 2003, HTI owed Heartland and CMC approximately $9,734,000. Heartland has recorded an allowance of approximately $133,000 on the note receivable balance of $9,734,000 based on the June 30, 2003 Class B Interest capital account balance of $9,605,000.

On May 23, 2003, the Company purchased notes (see paragraph above) issued by HTI to PG Oldco, Inc. for $770,000 in cash and a note payable for $500,000, which bears interest at 5% and is due October 31, 2003. The $500,000 promissory note dated October 22, 2002 granted to CMCII by Goose, LLC related to the sale of the Company's interest in the Goose Island joint venture to its partners on October 22, 2002 has been pledge as collateral for the $500,000 PG Oldco, Inc. note payable. The outstanding note payable balance is $500,000 at June 30, 2003.

On August 11, 2003, the Company declared a $1.05 per unit cash distribution. The cash distribution will be payable on September 15, 2003 to Unitholders of record at August 29, 2003.

Development Property

At June 30, 2003, property designated for sale and development consisted of 9 sites comprising approximately 500 acres. The book value of this land is $7,034,000 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 was situated on 1.23 acres. The construction of Kinzie Station Phase I, which is complete, started on October 1, 1998. The Company has closed all 187 units (163 Tower units and 24 Plaza units), during the period May 1, 2000 to June 30, 2003; 1 in 2003, 8 in 2002, 38 in 2001 and 140 in 2000.

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 June 30, 2003, the Company owns 195 lots in its Longleaf community located in Southern Pines, North Carolina. At June 30, 2003, the book value of the lots is $2,121,000, an average of $10,900 per lot.

In Longleaf, the Company has closed as of June 30, 2003, a total of 52 contracts; 6 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 June 30, 2003, the Company has sold 55 homes and 5 lots for these owners since April 1, 1998.

23

HEARTLAND PARTNERS, L.P.
JUNE 30, 2003

Longleaf
Unit Inventory Detail
As of June 30, 2003

Model homes	2
Sold homes under construction	3
Inventory homes under construction	3
Lots owned	187
Total unit inventory	195

As of June 30, 2003, Heartland has an agreement for a $2,250,000 revolving line of credit for the construction of homes in Longleaf with Bank One of Illinois ("Bank One"). The revolving line of credit matures December 31, 2003 and bears interest at the prime rate (4.0% at June 30, 2003). At June 30, 2003, $1,105,000 had been advanced by Bank One to Heartland on the line of credit.

CMCVII, per the Longleaf lot Purchase and Sale Agreement, dated December 12, 2000, was required on April 1, 2002, November 1, 2002 and April 1, 2003 to pay $135,000, $250,000 and $135,000, 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 three 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, Longleaf Associates Limited Partnership ("LALP"), the seller of the Longleaf lots, has not notified CMCVII that it is in default. LALP 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. On June 19, 2003, Maples included CMCVII as a defendant in a lawsuit Maples filed against LALP in the North Carolina General Court of Justice Superior Court Division of Moore County for breach of contract. Maples is seeking $3,515,000 in compensatory damages from the defendants. CMCVII is vigorously defending itself against this action and at this time the Company has not recorded a loss contingency because it cannot be determined if it is a probable that a liability has been incurred and the amount of any possible liability cannot be determined. Also, management is not able to express an opinion on whether this action will or will not adversely affect the Company's future financial condition or results of operations.

24

HEARTLAND PARTNERS, L.P.
JUNE 30, 2003

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 third 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% (5.0% at June 30, 2003), and matures August 31, 2003. The outstanding loan balance is $3,500,000 at June 30, 2003.

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 June 30, 2003, Heartland's allowance for claims and liabilities for this site was $1,110,000. At June 30, 2003, interest owed to the Port had been paid to date.

Menomonee Valley

The Company owned 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 had proposed a mixed use development to include retail and entertainment uses complementary to the baseball park as a recreational destination. The City of Milwaukee had stated that it believed industrial development would be more appropriate for the site and the Redevelopment Authority of the City of Milwaukee ("RACM") had announced it would seek to acquire the property through eminent domain if necessary.

On June 10, 2003, RACM delivered to the Company an appraisal of the Company's property in the Menomonee Valley in Milwaukee as an initial step in RACM's condemnation of the property. The RACM appraisal valued the property at $3,550,000. On July 30, 2003, the Company received $3,550,000 and a release for all environmental matters related to the property from RACM and conveyed title to the property to RACM. The Company and RACM have agreed to negotiate the amount of additional compensation due from RACM to the Company. The Company has reserved the right to bring suit for additional consideration. The carrying amount of the Menomonee property is greater than the $3,550,000 initially received from RACM. Any additional amount to be received by the Company is uncertain at this time, however, management believes the total carrying value is recoverable. No impairment loss has been reflected in the consolidated financial statements at June 30, 2003.

Property Sales and Leasing Activities

The Company has the right to sell easements for fiber optic lines along or across approximately 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 13,719 acres located throughout 12 states. The book value of this inventory is

approximately $633,000 at June 30, 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 of work 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 June 30, 2003, the Company has recorded a liability of approximately $4,021,000 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 June 30, 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 June 30, 2003 and 2002 resulted in a net loss of ($1,303,000) and ($425,000), respectively. Operations for the six months ended June 30, 2003 and 2002, resulted in a net income of $4,249,000 and a net loss of ($970,000), respectively. For the three months ended June 30, 2003 and 2002, the net loss allocated to the Class A Limited Partners is ($1,283,000) and ($419,000), respectively or ($0.61) and ($0.20), respectively per Class A Unit. For the six months ended June 30, 2003 and 2002, the net income allocated to the Class A Limited Partners is $4,186,000, and the net loss is ($955,000), respectively or $2.00 and ($0.46), respectively per Class A Unit.

The increase in net income for the first six months of 2003 compared to the net loss in the first six months of 2002 of $5,219,000 is primarily attributable to an increase in the gross profit on property sales from 2002 to 2003 of $6,986,000.

Total operating expenses were $3,205,000 and $1,896,000 for the six months ending June 30, 2003 and 2002, respectively. The increase of $1,309,000 is primarily due to increased sales and marketing expenses of $411,000, increased general and administrative expenses of $469,000 and an increase in interest expense of $179,000. 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 and consulting and legal expenses related to completing the sale of the Kinzie Station and Menomonee Valley properties. 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 legal expenses. Costs, such as interest expense, that would have been 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 June 30, 2003, Heartland's total consolidated indebtedness was $5,105,000, which is due within one year. 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 June 30, 2003 is $5,105,000. 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 at fixed rates of 5% and 7.5%. An adverse change of 1.00% in the prime rate would increase the quarterly interest incurred by approximately $13,000. 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". The Company is not subject to significant foreign currency exchange rate risk, commodity price risk or other relevant market price risks.

Item 4. Controls and Procedures

CEO and CFO Certifications

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods. As of the end of this period, the Company's Chief Executive Officer and Chief Financial Officer evaluated, with the participation of the Company's management, the effectiveness of the Company's disclosure controls and procedures. Based on the evaluation, which disclosed no significant deficiencies or material weaknesses, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

At June 30, 2003, Heartland's allowance for claims and liabilities was approximately $4,071,000. During the six months ended June 30, 2003, the Company incurred approximately $217,000 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 June 30, 2003, interest owed to the Port had been paid to date. At June 30, 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 four 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 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 regulatory agency responds to reports the Company has submitted summarizing the extent of the releases. This property was subsequently conveyed to the Redevelopment Authority of the City of Milwaukee, ("RACM") on July 30, 2003. As part of the transaction, RACM released the Company from all environmental liability associated with the property.

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 was for defamation. He alleged 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 was 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. On May 29, 2003, the court dismissed with prejudice the defamation lawsuit against the Company, CMC and certain officers and/or board members. At the same time, the court dismissed with prejudice Mr. Jacobson's motion to enjoin the Company from selling its real

estate. Mr. Jacobson has filed a motion for reconsideration of the dismissals. CMC is vigorously defending itself against the remaining lawsuit and, in the opinion of management, has good defenses against the one remaining lawsuit as its actions were consistent with its duties and in conformance with the law. The Company has not recorded a loss contingency related to this action 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.

CMCVII, per the Longleaf lot Purchase and Sale Agreement, dated December 12, 2000, was required on April 1, 2002, November 1, 2002 and April 1, 2003 to pay $135,000, $250,000 and $135,000, 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 three 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, Longleaf Associates Limited Partnership ("LALP"), the seller of the Longleaf lots, has not notified CMCVII that it is in default. LALP 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. On June 19, 2003, Maples included CMCVII as a defendant in a lawsuit Maples filed against LALP in the North Carolina General Court of Justice Superior Court Division of Moore County for breach of contract. Maples is seeking $3,515,000 in compensatory damages from the defendants. CMCVII is vigorously defending itself against this action and at this time the Company has not recorded a loss contingency because it cannot be determined if it is a probable that a liability has been incurred and the amount of any possible liability cannot be determined. Also, management is not able to express an opinion on whether this action will or will not adversely affect the Company's future financial condition or results of operations.

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
10.66	First Amendment of Loan Agreement, Note, Deed of Trust, Security Agreement and Fixture Filing and Other Loan documents between CMC Heartland Partners IV, LLC and Bank One, NA dated April 30, 2003 (filed herewith).

10.67	Fourth Amendment of Construction Loan Agreement, Notes, Deed of Trust and Other Loan Documents dated April 12, 2003 between CMC Heartland Partners VII, LLC and Bank One, NA (filed herewith).
10.68	Fifth Amendment of Construction Loan Agreement, Notes, Deed of Trust and Other Loan Documents dated June 18, 2003 between CMC Heartland Partners VII, LLC and Bank One, NA (filed herewith).
99.09	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 August 14, 2003 (filed herewith).
99.10	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 August 14, 2003 (filed herewith).

(b) Reports on Form 8-K;

None.

35

HEARTLAND PARTNERS, L.P.
JUNE 30, 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: August 14, 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 Rules 13(a)-15(e) and 15(d)-15(e)of the Securities Exchange Act of 1934, as amended) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 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 Rules 13(a)-15(e) and 15(d)-15(e)of the Securities Exchange Act of 1934, as amended) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

By /s/ Daniel L. Bernardi

Daniel L. Bernardi
Chief Financial Officer

HEARTLAND PARTNERS, L.P.
JUNE 30, 2003

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