

HEARTLAND, INC.  
Form 10QSB  
August 22, 2006

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-QSB**

**QUARTERLY REPORT**

**UNDER SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR QUARTER ENDED JUNE 30, 2006**

**HEARTLAND, INC.**

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

**Maryland**

**000-27045**

**36-4286069**

-----  
(State or other jurisdiction

-----  
(Commission File Number)

-----  
(I.R.S. Employer Identification Number)

of incorporation or organization))

**25 Mount Park Drive**

**Springboro, Ohio 45066**

(Address of principal executive offices) (Zip Code)

**763.557.2900**

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

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

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

Number of shares of the registrant's common stock outstanding as of August 21, 2006 was: 25,128,858

Traditional Small Business Disclosure Format: Yes  No

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HEARTLAND, INC.

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 PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HEARTLAND, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2006 (Unaudited)	December 31, 2005 (Restated)
Current Assets:		
Cash	\$ 26,032	\$ 685,386
Accounts receivable, net of allowance for doubtful accounts of \$214,393 and \$219,663 respectively	3,381,882	4,070,243
Costs in excess of billings on uncompleted contracts	88,764	332,396
Inventories	814,028	10,291,051
Prepaid expenses and other	153,551	206,882
Total Current Assets	4,464,257	15,585,958
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$27,377 and \$265,971, respectively	976,772	3,383,552
Other Assets:		
Goodwill	1,291,390	1,429,787
Other intangible assets	18,282	259,688
Investments in joint ventures	0	401,654
Acquisition deposits	50,000	50,000
Land deposits	0	221,800
Other assets	64,395	80,430
Total Other Assets	1,424,067	2,443,359
Total Assets	\$ 6,865,096	\$ 21,412,869

See accompanying notes to consolidated financial statements.

**HEARTLAND, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIENCY)**

	<b>June 30, 2006</b> <b>(Unaudited)</b>	<b>December 31,</b> <b>2005</b> <b>(Restated)</b>
<b>Current Liabilities:</b>		
Bank lines of credit	\$0	\$ 1,351,423
Note payable land purchase	1,350,000	5,740,160
Convertible promissory notes payable	777,850	2,395,617
Current portion of notes payable	38,352	148,247
Current portion of capitalized lease obligation	0	121,934
Current portion of notes payable to related parties	69,553	66,787
Bank overdraft	85,558	0
Accounts payable	2,123,329	4,762,224
Acquisition notes payable to related parties	0	3,250,000
Obligations to related parties	0	6,508
Accrued payroll taxes	384,250	602,201
Accrued interest	353,653	669,028
Accrued expenses	331,545	483,512
Billings in excess of costs on uncompleted contracts	370,959	521,952
Customer deposits	0	12,770
Deferred income taxes	0	163,922
<b>Total Current Liabilities</b>	<b>5,885,049</b>	<b>20,296,285</b>
<b>Long-term Debt:</b>		
Notes Payable, less current portion	448,316	2,035,076
Capitalized lease obligation, less current portion	0	148,072
Notes payable to related parties, less current portion	508,050	545,158
Notes payable to individual	0	0
Non-controlling interest of Variable Interest Entities	0	368,215
Deferred income taxes	0	0
<b>Total Long Term Liabilities</b>	<b>956,366</b>	<b>3,096,521</b>
<b>Shareholders Equity (Deficiency):</b>		
Preferred stock \$0.001 par value, 5,000,000 shares authorized,		
None issued and outstanding	0	0
Common stock \$0.001 par value, 100,000,000 shares authorized,		
26,177,824 and 23,746,024 issued and outstanding, respectively	25,450	23,746
Additional paid-in-capital	11,369,824	16,053,901
Accumulated deficit	(11,371,592 )	(18,057,584 )
<b>Total Shareholders Equity (Deficit)</b>	<b>23,682</b>	<b>(1,979,937 )</b>

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Total Liabilities and Shareholders' Equity (Deficit) \$6,865,096 \$21,412,869

See accompanying notes to consolidated financial statements.

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**HEARTLAND, INC. AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net Revenues	\$ 4,869,422	\$ 5,163,980	\$ 8,805,271	\$ 8,492,402
Costs and Expenses:				
Cost of goods sold	4,080,378	4,932,834	7,278,692	7,470,903
General and administrative expenses	593,684	526,900	1,579,485	1,342,380
Stock based compensation		0	0	1,175,335
Depreciation and amortization	4,851	34,998	27,377	50,989
Total Costs and Expenses	4,678,913	5,494,732	8,885,554	10,039,607
Income (Loss) from Operations	190,510	(330,752 )	(80,283 )	(1,547,205 )
Other Income (Expense):				
Rental income		39,051	0	78,102
Other income	28,219	4,791	65,061	5,988
Interest expense	(70,653 )	(99,230 )	(194,508 )	(249,612 )
Loss on disposal of equipment				
Total Other Income (Expense)	(42,434 )	(55,388 )	(129,447 )	(165,522 )
Net Income (Loss) from continuing operations	\$ 148,076	\$ (478,140 )	\$ (209,729 )	\$ (1,712,727 )
Discontinued Operations:				
Loss from discontinued operations (less applicable income tax expense of \$0)	1,685		1,685	(279,952 )
Gain from discontinued operations (less applicable income tax expense of \$0)	6,010,811		6,010,811	
Gain from discontinued operations of VIEs (less applicable income tax expense of \$0)	(12,692 )		(12,692 )	
Income loss from discontinued operations of VIEs (less applicable income tax expense of \$0)	881,141		881,141	
Total Discontinued Operations	6,880,945		6,880,945	(279,952 )
Net Income (Loss)	\$ 7,029,021	\$ (478,140 )	\$ 6,671,216	\$ (1,992,679 )
Earnings (Loss) per Share:				
Basic	\$ 0.28	\$ (0.02 )	\$ 0.27	\$ (0.10 )
Weighted Average Common and Common Equivalent Shares Outstanding	25,451,275	19,998,334	24,660,726	20,479,850

See accompanying notes to consolidated financial statements.

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## HEARTLAND, INC. AND SUBSIDIARIES

### UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
Reconciliation of Net Income (Loss) to Net Cash Flows Used in		
Operating Activities:		
Net income (Loss)	\$6,671,216	\$ (1,992,682 )
Gain on discontinued operations of subsidiaries	(6,010,811 )	112,015
Loss on discontinued operations of Variable Interest Entities	12,692	-
Depreciation and amortization	27,377	112,015
Loss on disposal of equipment	-	-
Stock-based compensation	212,500	1,175,335
Changes in working capital:		
Accounts receivable, trade, net	(597,393 )	(379,364 )
Costs in excess of billings on uncompleted contracts	243,632	(320,527 )
Inventories	(395,197 )	(1,430,594 )
Prepaid expenses & other	14,120	(13,526 )
Other assets	(44,099 )	(51,776 )
Accounts payable	359,236	764,950
Other	(1,105,788 )	-
Payroll taxes payable	(139,672 )	(63,217 )
Interest payable	392,571	
Other accrued liabilities	22,407	610,854
Billings in excess of costs on uncompleted contracts	(150,993 )	72,104
Customer deposits	(12,770 )	75,632
Net Cash Flow Used in Operating Activities	(500,972 )	(1,440,526 )
Investing Activities:		
Discontinued Operating Subsidiaries cash	(516,005 )	
Discontinued Variable Interest Entities cash	(90,071 )	
Purchases of property and equipment	(3,216 )	(22,559 )
Repayment of advances to related parties	-	30,000
Net Cash Flows Provided by (Used in) Investing Activities	(609,292 )	7,441

See accompanying notes to consolidated financial statements.

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**HEARTLAND, INC. AND SUBSIDIARIES**
**UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
Financing Activities:		
Proceeds from issuance of common stock	\$ 243,283	\$ 200,000
Proceeds from issuance of convertible notes	165,850	714,150
Borrowing on bank overdraft	85,558	-
Borrowing on line of credit	9,566	99,999
Borrowing for land purchases	9,950	650,983
Short-term loan from individual		100,000
Payments on acquisition notes payable to related parties	(34,342)	(50,000)
Advances received from related parties		73,000
Payments on obligations to related parties	(6,508)	(201,790)
Borrowing on notes payable		-
Payment on notes payable	(22,447)	(22,494)
Payments on capital lease obligation		(57,000)
Payment of dividends		(1,760)
Net Cash Provided by Financing Activities	450,910	1,505,088
Increase in Cash		72,003
Cash, beginning of period	685,386	578,354
Cash, end of period	\$ 26,032	\$ 650,357

See accompanying notes to consolidated financial statements.

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE A CONDENSED FINANCIAL STATEMENTS**

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

**NOTE B - STOCKHOLDERS EQUITY**

The Company issued 721,684 of its common stock in connection with the conversion of Convertible Promissory Notes.

**NOTE C GOING CONCERN**

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

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

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



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

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

### (A) THE COMPANY

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

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

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

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

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

**(B) BUSINESS DEVELOPMENT**

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

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

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

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

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

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

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

On December 27, 2004, the Company entered into an Acquisition Agreement to acquire 100% of Monarch Homes, Inc. ( Monarch ), a Minnesota corporation with its corporate headquarters located in Ramsey, MN for \$5,000,000. The acquisition was terminated on March 31, 2006.

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On December 30, 2004, the Company entered into an Acquisition Agreement to acquire 100% of Evans Columbus, LLS ( Evans ), an Ohio corporation with its corporate headquarters located in Blacklick, OH for \$3,005,000. The acquisition was terminated on March 31, 2006.

On December 31, 2004, the Company entered into an Acquisition Agreement to acquire 100% of Karkela Construction, Inc., a Minnesota corporation with its corporate headquarters located in St. Louis Park, MN for \$3,000,000. The acquisition price consisted of the following:

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\$100,000 at closing,

a short term promissory note payable of \$50,000 on or before January 31, 2005,

a promissory note of \$1,305,000 payable on or before March 31, 2005 which, if not paid by that date, interest is due from December 31, 2004 to actual payment at 8%, simple interest, compounded annually and 500,000 restricted newly issued shares of the Company's common stock provided at closing.

In the event the common stock of the Company is not trading at a minimum of \$4.00 as of December 31, 2005, the Company was required to compensate the original Karkela shareholders for the difference in additional stock. As a result of the aforementioned, the Company issued the former Karkela shareholders 262,500 shares of common stock on March 15, 2006. Karkela is a wholly owned subsidiary of the Company.

On July 29, 2005, the Company entered into a binding Stock Purchase Agreement with Steven Persinger, an individual, to acquire all the issued and outstanding shares of common stock of Persinger Equipment, Inc., a Minnesota corporation ( Persinger ) for \$4,735,000. The acquisition price consists of the following:

\$2,000,000 in cash on or before February 1, 2006, and

\$2,735,000, payable in cash or 911,667 non-restricted shares of common stock of the Company at the Company's option payable at closing.

In the event the common stock of the Company is not trading at a minimum of \$3.00 as of July 29, 2006, the Company is required to compensate Mr. Persinger for the difference in additional stock. In connection with the Stock Purchase Agreement, the Company and Mr. Persinger will enter into an employment agreement for a period of 5 years with an annual base salary of \$120,000 per year, which includes various incentive based provisions. Also in connection with the Stock Purchase Agreement, Persinger will continue leasing from Mr. Persinger the real estate that Persinger operates in its business for as long as Mr. Persinger is employed by Persinger. Persinger has the right and option to purchase this real estate during Mr. Persinger's employment for \$600,000.

On September 12, 2005, the Company entered into a binding Agreement for Purchase and Sale of Shares with Calvin E. Bergman, Lynn E. Bergman, Jerry L. Bergman, Barbara A. Vance and Marvin Bergman, individually, to acquire all the issued and outstanding shares of common stock of Ney Oil Company, an Ohio corporation ( Ney Oil Company ) for \$5,000,000. The acquisition price consisted of:

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\$3,000,000 at closing, and

1,333,300 shares of common stock of the Company valued three business days prior to the closing to not be less than \$2,000,000.

In the event the value is less than \$2,000,000, the number shall increase accordingly.

On September 12, 2005, the Company entered into a Letter of Intent with Terry Robbins, President of Ohio Valley Lumber, to acquire all the issued and outstanding shares of common stock of NKR, Inc, d.b.a. Ohio Valley Lumber, a Delaware corporation ( NKR ) for \$8,000,000.00. The acquisition price was made up of:

\$4,000,000 in cash,

2,000,000 shares of common stock of the Company and

\$2,000,000 in cash for the reduction of NKR s debt.

The Company is still negotiating the terms of the definitive documentation.

On September 21, 2005, the Company entered into a binding Acquisition Agreement with Terry L. Lee and Gary D. Lee, individually, to acquire all the issued and outstanding shares of common stock of Lee Oil Company, Inc., a Virginia corporation, Lee Enterprises, Inc., a Kentucky corporation and Lee s Food Marts LLC, a Tennessee Limited Liability Company, (collectively hereinafter "Lee Oil Company") for \$6,000,000.00. The acquisition price shall consist of:

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\$5,000,000.00 at closing and

\$1,000,000.00, payable in common stock of the Company valued at the date of closing.

On September 26, 2005, the Company entered into a binding Acquisition Agreement with Robert Daniel, Karol K. Hart-Bendure, M. Lucille Daniel, and Joe M. Daniel, individually, to acquire all the issued and outstanding shares of common stock of Schultz Oil Company, Inc., an Ohio Corporation ( Schultz Oil Company ) for \$3,500,000 consisting of \$1,500,000 in cash at closing and 1,000,000 of common stock. In the event the common stock of the Company does not have a value of at least \$2.00 as of September 26, 2007, the Company is required to compensate the shareholders for the difference with the issuance of additional shares.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2005.**

We are an operating conglomerate with operations in steel fabrication, and construction. Revenues for the three months and six months ended June 30, 2006 were \$4,869,422 and \$8,805,271, respectively, compared to \$5,163,980 and \$8,492,402 for the same periods in 2005. Total operating expenses were \$4,678,913 and \$8,885,554 for the three months and six months ended June 30, 2006, respectively, compared to \$5,494,732 and \$10,039,607 for the same periods in 2005. These declines were primarily a result of decreased contracts in the construction segment. The decline in operating expenses was not proportional to the decline in revenues due primarily to \$1,175,335 in stock based compensation in 2006 relating to the granting of restricted shares to management and the issuance of restricted shares in payment of consulting fees.

Interest expense for the three months and six months ended June 30, 2006 was \$70,663 and \$194,508, respectively, compared to \$99,230 and \$249,612 for the same periods in 2005. The decreases were primarily due to the conversion of convertible promissory notes.

As a result, Income (Loss) Prior to discontinued operations was \$148,076 and (\$209,729) for the three months and six months ended June 30, 2006, respectively, compared to (\$478,140) and (\$1,712,727) for the same periods in 2005.

**LIQUIDITY AND CAPITAL RESOURCES**

Net cash used in operating activities was (\$500,972) for the six months ended June 30, 2006. This was primarily related to the gain of discontinued operating subsidiaries.

Total short-term and long-term debt at June 30, 2006 was \$6,841,415 and total shareholders equity was \$23,682.

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

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

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

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

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

### **Inflation**

We are subject to the effects of inflation and changing prices. As previously mentioned, we experienced rising prices for steel and other commodities during fiscal 2005 and for the first six months of 2006 that had a negative impact on our gross margins and net earnings. In the remainder of fiscal 2006, we expect average prices of steel and other commodities to be higher than the average prices paid in fiscal 2005 and for the first six months of 2006. We will attempt to mitigate the impact of these anticipated increases in steel and other commodity prices and other inflationary pressures by actively pursuing internal cost reduction efforts and introducing price increases.

### **Critical Accounting Policies and Estimates**

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

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

**Accounts Receivable Valuation.** We value accounts receivable, net of an allowance for doubtful accounts. Each quarter, we estimate our ability to collect outstanding receivables that provides a basis for an allowance estimate for doubtful accounts. In doing so, we evaluate the age of our

receivables, past collection history, current financial conditions of key customers, and economic conditions. Based on this evaluation, we establish a reserve for specific accounts receivable that we believe are uncollectible, as well as an estimate of uncollectible receivables not specifically known. A deterioration in the financial condition of any key customer or a significant slow down in the economy could have a material negative impact on our ability to collect a portion or all of the accounts and notes receivable.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

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

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#### **ITEM 3. CONTROLS AND PROCEDURES.**

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

#### **PART II. OTHER INFORMATION**

##### **ITEM 1. LEGAL PROCEEDINGS**

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

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

##### **ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

On May 3, 2006 the company issued upon conversion of existing promissory notes:

4,485 shares to Valerie Johnson

20,603 shares to ENTRUST CAMA FBO

31,679 shares to ENTRUST CAMA FBO

110,658 shares to ENTRUST CAMA FBO

20,000 shares to Jeremiah Bergeron

15,895 shares to ENTRUST CAMA FBO

18,411 shares to David Zavoral

14,780 shares to ENTRUST CAMA FBO

88,906 shares to Paul McElhone

10,987 shares to ENTRUST CAMA FBO

22,745 shares to Thomas Huston

12,395 shares to ENTRUST CAMA FBO

44,153 shares to Shelia Hanenburg

100,000 shares to Randy Brown

21,194 shares to ENTRUST CAMA FBO

2,937 shares to ENTRUST CAMA FBO

33,863 shares to Don Dykhoff

56,438 shares to ENTRUST CAMA FBO

5,537 shares to Gerald Doran

50,376 shares to ENTRUST CAMA FBO

17,705 shares to Matthew Blesi.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None



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

None

**ITEM 5. OTHER INFORMATION**

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

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits:

Exhibit 31.1	Certification of Thomas C. Miller, President, Chief Executive Officer & Director
Exhibit 31.2	Certification of Jerry Gruenbaum, Interim Chief Financial Officer & Director

Exhibit 32.1	Certification of Trent C. Miller, President, Chief Executive Officer & Director
Exhibit 32.2	Certification of Jerry Gruenbaum, Interim Chief Financial Officer & Director

(b) Reports on Form 8-K:

Three Months Ended June 30, 2006

The Company filed a Form 8-K on May 22, 2006 relating to appointing Tomas C. Miller as CEO and Director of the Company.

**SIGNATURES**

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

**HEARTLAND, INC.**

(Registrant)

Date: August 21, 2006  
Thomas C. Miller

President, CEO& Director

(Duly Authorized Officer)

By: /s/ THOMAS C. MILLER

Date: August 21, 2006  
Jerry Gruenbaum

Interim Chief Financial Officer

and Director

(Principal Financial

and Accounting Officer)

By: /s/ JERRY GRUENBAUM