HEARTLAND, INC.
Form 10QSB
May 16, 2005

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 MARCH 31, 2005

HEARTLAND, INC.

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

Maryland	**000-27045**	**36-4286069**
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(State or other jurisdiction	(Commission File Number)	(I.R.S. Employer Identification Number)
of incorporation or organization))		

3300 Fernbrook Lane North, Suite 180

Plymouth, MN 55447

(Address of principal executive offices) (Zip Code)

763.557.2900

(Registrant s telephone no., including area code)

(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 x No o

Number of shares of the registrant s common stock outstanding as of May 16, 2005 was: 20,227,301

Traditional Small Business Disclosure Format: Yes o No x

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HEARTLAND, INC.

FORM 10-QSB

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HEARTLAND, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

ASSETS

	March 31 2005		**December 31 2004**	
CURRENT ASSETS				
Cash	$	583,335	$	578,354
Marketable Securities				
Accounts receivable, net of allowance for doubtful accounts of $454,746 and $684,829 respectively		4,138,182		3,450,970
Costs in excess of billings on incomplete contracts		637,071		258,161
Inventory		4,944,391		4,932,629
Prepaid expenses and other		179,005		110,163
Total Current Assets		10,481,984		9,330,277
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $777,352 and $723,761, respectively		1,833,956		1,876,685
OTHER ASSETS				
Advances to related party		266,122		281,122
Goodwill		2,193,613		2,193,613

Security deposits		13,387		13,787
Total Other Assets		2,473,122		2,488,522
Total Assets	$	14,789,062	$	13,695,484

See accompanying notes to consolidated financial statements.

HEARTLAND, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

LIABILITIES AND SHAREHOLDERS EQUITY

	March 31, 2005		**December 31, 2004**	
CURRENT LIABILITIES				
Bank lines of credit	$	910,988	$	810,989
Note payable land purchase		1,806,372		1,965,698
Convertible promissory notes payable		1,593,800		1,026,550
Current portion of notes payable		45,133		45,133
Current portion of capitalized lease obligation		115,423		115,423
Accounts payable		3,408,404		2,864,312
Acquisition notes payable to related party		3,250,000		3,300,000
Obligations to related party		469,117		670,907
Accrued payroll taxes		776,038		693,630
Accrued expenses		548,610		477,868
Billings in excess of costs on uncompleted contracts		700,189		82,839

Customer deposits		36,451		21,063
Total Current Liabilities		13,660,525		12,074,412
LONG-TERM DEBT				
Notes Payable, less current portion		527,618		541,313
Capitalized lease obligation, less current portion		240,835		269,100
Notes payable to an individual		150,000		150,000
Deferred income taxes		408,003		408,003
Total Long Term Liabilities		1,326,456		1,368,416
STOCKHOLDERS EQUITY (DEFICIT)				
Preferred stock $0.001 par value, 5,000,000 shares authorized, none issued and outstanding				
Common stock $0.001 par value, 100,000,000 shares authorized, issued and outstanding 19,744,801 and 18,244,801 shares at March 31, 2005 and December 31, 2004, respectively		19,744		18,244
Additional paid-in-capital		2,042,914		1,354,414
Accumulated deficit		(2,260,577)		(1,120,002)
Total Stockholders Equity (Deficit)		(197,919)		252,656
Total Liabilities and Stockholders Equity (Deficit)	$	14,789,062	$	13,695,484

See accompanying notes to consolidated financial statements.

HEARTLAND, INC.

CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31, 2005		**Three Months Ended March 31, 2004**	
				(Restated)
NET SALES	$	8,238,422	$	13,533,733
COSTS AND EXPENSES				
Cost of goods sold		7,267,069		12,175,964
Selling, general and administrative expenses		1,300,815		828,424
Stock based compensation		690,000		
Depreciation and amortization		53,991		45,576

Total Costs and Expenses	9,311,875	13,049,964
NET OPERATING INCOME (LOSS)	(1,073,453)	483,769
OTHER INCOME (EXPENSE)		
Rental income	39,051	59,212
Other income	1,197	69
Interest expense	(104,382)	(30,918)
Loss on disposal of equipment		
Total Other Income (Expense)	(64,134)	28,363
NET INCOME (LOSS) Before taxes	(1,137,587)	512,132
DEFERRED FEDERAL AND STATE INCOME TAX	1,225	36,385
INCOME (LOSS) PRIOR TO ADJUSTMENT FOR PREACQUISITION EARNINGS	(1,138,812)	475,747
ELIMINATION OF PREACQUISITION EARNINGS (LOSS)		(217,231)
NET INCOME (LOSS)	(1,138,812)	258,516
NET INCOME (LOSS) PER COMMON SHARE		
Basic	(0.06)	0.02
Diluted	(0.05)	0.02
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	19,424,801	13,077,758
FULLY DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	21,425,551	13,077,758

See accompanying notes to consolidated financial statements.

HEARTLAND, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	March 31, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (1,138,812)	$ 258,516

Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Stock based compensation		690,000		
Depreciation and amortization		53,591		27,918
(Increase) decrease in accounts receivable		(687,212)		46,099
(Increase) decrease in costs in excess of billings		(378,910)		
(Increase) in inventory		(11,762)		(255,346)
(Increase) in prepaid and other		(68,842)		
Increase in accounts payable		544,092		100,836
Increase (decrease) in accrued payroll taxes		82,408		(69,825)
Increase in accrued expenses		70,739		15,750
Increase (decrease) in billings in excess of cost		617,350		(152,349)
Increase in customer deposits		15,388		
Net Cash Used in Operating Activities		(211,970)		(28,401)
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for property and equipment		(10,862)		
Payment for acquisition goodwill				
Proceeds from security deposits		400		
Net Cash Used in Investing Activities		(10,462)		
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of convertible promissory notes payable		567,250		
Proceeds from bank line of credit		99,999		
Proceeds from advance to related party		15,000		
Payments on notes payable		(173,021)		(20,293)
Payments on acquisition notes payable		(50,000)		
Payments on capital lease		(28,265)		
Payments of dividends		(1,760)		
Payments on obligations to related party		(201,790)		
Proceeds from additional capital investments				45,000
Net Cash Provided by Financing Activities		227,413		24,707
NET INCREASE IN CASH		4,981		(3,694)
CASH BEGINNING OF PERIOD		578,354		4,923
CASH END OF PERIOD	$	583,335	$	1,229

See accompanying notes to consolidated financial statements.

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HEARTLAND, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not misleading have been included. Results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the financial statements and footnotes thereto included in the Heartland, Inc. and Subsidiaries annual report on Form 10-KSB for the year ended December 31, 2004.

NOTE B ACQUISITIONS

In December 2003, the Company acquired 100% of the issued and outstanding stock of Mound Technologies (Mound) for an aggregate purchase price of 1,256,000 shares of the Company s common stock.

On December 27, 2004, the Company acquired 100% of Monarch Homes Inc. (Monarch). The acquisition price consisted of 1) $100,000 in cash, 2) a promissory note of $1,900,000 payable on or before February 15, 2005 which, if not paid by that date will include interest at 8% to payment date, and 3) 667,000 restricted shares of the Company s common stock. Should the common stock of the Company not be trading at a minimum of $5 per share as of December 27, 2005, the Company must compensate the seller for the difference in additional shares of common stock.

On December 30, 2004, the Company acquired 100% of Evans Columbus, LLC (Evans). The acquisition price consisted of 1) $5,000 in cash, and 2) 600,000 restricted shares of the Company s common stock. Should the common stock not be trading at a minimum of $5 per share as of December 30, 2005, the Company must compensate the seller for the difference in additional shares of common stock.

On December 31, 2004, the Company acquired 100% of Karkela Construction, Inc. (Karkela). The acquisition price consisted of 1) $100,000 in cash, 2) a promissory note payable of $50,000 due on or before January 31, 2005, 3) a promissory note of $1,350,000 payable on or before March 31, 2005 which if not paid by that date, will include interest from December 31, 2004 at 8% to payment date, and 4) 500,000 restricted shares of the Company s common stock. Should the common stock of the Company not be trading at a minimum of $4 per share as of December 31, 2005, the company must compensate the seller for the difference in additional shares of common stock.

The allocation of the purchase price for these acquisitions was as follows:

	Mound	Monarch	Evans	Karkela
Cash payment		$ 100,000	$ 5,000	$ 100,000
Promissory note		1,900,000		1,400,000
Common stocks	1,256,000	667,000	600,000	500,000
Value per share	$ 0.01	$ 0.47	$ 0.47	$ 0.47
Total Common Stock	12,560	313,490	282,000	235,000
Total Purchase Price	$ 12,560	$ 2,313,490	$ 287,000	$ 1,735,000

Fair value of net assets acquired:

Cash	$ 4,923	$ 150,996	$ 114,016	$ 193,421
Loan receivable		202,965	78,157	
Accounts receivable	1,123,202		637,060	1,446,951
Costs in excess of billings				144,437
Inventory	619,192	3,843,570	579,762	65,994
Property, plant & equip	982,502	160,834	460,586	35,944
Other assets	1,000		39,446	
Liabilities assumed	(3,304,315)	(2,556,762)	(1,622,027)	(1,247,417)
Goodwill	586,056	511,887		1,095,670
	$ 12,560	$ 2,313,490	$ 287,000	$ 1,735,000

NOTE C - STOCKHOLDERS EQUITY

On January 15, 2005 the company approved the issuance of 1,500,000 shares of its common stock as compensation to an officer.

NOTE D - CONVERTIBLE PROMISSORY NOTES PAYABLE

In January, February, and March, the company entered into several convertible note payable agreements. The notes bear interest at the rate of 10% per year and are due and payable one year from the date executed at which time the notes, at the option of the note holder, can be converted into 573,200 shares of common stock of which 561,300 will converted at $1.00 per share and 11,900 will be converted at $0.50 per share.

NOTE E LITIGATION

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.

On February 20, 2003 a judgment in the amount of $28,750 was entered against the Company for unpaid rent on behalf of Graham Paxton, the former President and CEO of the Company as part of his employee benefit plan. To date the judgment has not been paid.

On March 31, 2003, a judgment in the amount of $99,089, including $50,000 security deposit replenishment, was entered against the company for breach of contract for non-payment of rent on the company's office facility in Woburn, Massachusetts. The company is contingently liable for the balance of this lease in the total amount of $428,000 through the lease expiration date of July 31, 2005. To date the judgment has not been paid.

Mound Technologies, Inc., a wholly owned subsidiary of the Company, leases its manufacturing facility from Mound Properties, an organization owned by the President of Mound Technologies, Inc. The financial institution, which has a mortgage on the property, has obtained a judgment on the property and the owners of Mound Technologies, Inc. The Company is in the process of purchasing and refinancing the property.

Other than the matters above, there is no other past, pending or, to the Company's knowledge, threatened litigation or administrative action which has or is expected by the Company's management to have a material effect upon our Company's business, financial condition or operations, including any litigation or action involving our Company's officers, directors, or other key personnel.

NOTE E LEASE OBLIGATIONS

The Company is obligated under the terms of a lease dated February 25, 2005 with th