

HEARTLAND, INC.
Form 10-Q
November 14, 2011

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

FORM 10-Q

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

HEARTLAND, INC.
(Exact name of registrant as specified in its charter)

Maryland

000-27045

36-4286069

(State or other jurisdiction
of incorporation or
organization)

(Commission File Number)

(I.R.S. Employer Identification
Number)

1005 N. 19th Street
Middlesboro, KY 40965
(Address of principal executive offices) (Zip Code)

606-248-7323
(Registrant's telephone no., including area code)

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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐

Non accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of October 20, 2011, there were 56,518,422 shares of common stock, \$0.001 par value per share,

outstanding.

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HEARTLAND, INC.

FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HEARTLAND, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2011 (Unaudited)	December 31, 2010
CURRENT ASSETS		
Cash	\$884,181	\$1,089,035
Accounts receivable, net	6,972,358	6,612,134
Accounts receivable - related parties	541,375	373,412
Inventory	4,291,563	4,008,178
Prepaid expenses and other current assets	548,465	788,793
Total current assets	13,237,942	12,871,552
PROPERTY, PLANT AND EQUIPMENT, net		
	11,668,005	12,426,502
OTHER ASSETS		
	1,288,196	1,006,493
Total assets	\$26,194,143	\$26,304,547

HEARTLAND, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS - continued

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2011 (Unaudited)	December 31, 2010
CURRENT LIABILITIES		
Accounts payable	\$5,338,421	\$4,460,294
Line of credit	1,178,519	1,175,000
Current portion of notes payable	3,340,929	3,426,368
Current portion of notes payable to related parties	356,137	671,558
Other current liabilities	735,600	647,458
Total current liabilities	10,949,606	10,380,678
Notes payable, less current portion	2,065,805	2,441,845
Notes payable to related parties, less current portion	6,174,011	6,229,516
Other long-term liabilities	435,360	542,921
Total liabilities	19,624,782	19,594,960
STOCKHOLDERS' EQUITY		
Common stock, \$0.001 par value 100,000,000 shares authorized; 36,353,648 shares issued and outstanding at September 30, 2011 and December 31, 2010	36,354	36,354
Additional paid-in capital – common stock	20,581,402	20,536,976
Accumulated deficit	(14,048,395)	(13,863,743)
Net stockholders' equity	6,569,361	6,709,587
Total Liabilities and Stockholders' Equity	\$26,194,143	\$26,304,547

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
SALES	\$28,431,208	\$25,854,331	\$83,701,413	\$73,001,499
SALES RELATED PARTIES	445,349	283,708	1,007,014	831,910
Cost of goods sold	(25,933,746)	(23,262,170)	(76,714,910)	(66,000,146)
Gross profit	2,942,811	2,875,869	7,993,517	7,833,263
OPERATING EXPENSES	2,585,037	2,832,562	8,078,673	8,014,445
NET OPERATING INCOME (LOSS)	357,774	43,307	(85,156)	(181,182)
Other income (expenses)	17,529	(86,437)	(73,603)	(241,425)
Gain on sale of Premium Homes	-	-	152,700	-
Interest expense - related party	(78,179)	(60,651)	(236,906)	(194,984)
INCOME (LOSS) BEFORE INCOME TAXES	297,124	(103,781)	(242,965)	(617,591)
Federal and state income taxes				
Income taxes, current period	(15,495)	13,860	(29,308)	3,764
Income tax (expense) benefit, deferred	(99,709)	17,639	87,622	211,760
NET INCOME (LOSS)	181,920	(72,282)	(184,651)	(402,067)
LESS: Preferred Dividends	-	-	-	(20,557)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$181,920	\$(72,282)	\$(184,651)	\$(422,624)
Net loss per share:				
Basic:	\$0.01	\$(0.00)	\$(0.01)	\$(0.02)
Diluted:	\$0.01	\$(0.00)	\$(0.01)	\$(0.02)
Weighted average shares outstanding				
Basic:	36,353,648	23,295,802	36,353,648	22,651,478
Diluted:	36,353,648	23,295,802	36,353,648	22,651,478

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

Nine Months Ended
September 30,
2011 2010

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$394,207	\$423,554
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(121,271)	(362,914)
Net proceeds from disposition of assets	1,000	5,000
NET CASH USED IN INVESTING ACTIVITIES	(120,271)	(357,914)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments toward notes payable	(452,438)	(273,333)
Net payments toward notes to related parties	(26,352)	(93,672)
NET CASH USED IN FINANCING ACTIVITIES	(478,790)	(367,005)
DECREASE IN CASH	(204,854)	(301,365)
CASH, BEGINNING OF PERIOD	1,089,035	2,404,910
CASH, END OF PERIOD	\$884,181	\$2,103,545
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$697,763	\$559,717
Interest paid - related party	\$236,906	\$194,984
Income taxes paid	\$29,308	\$10,096
NON CASH INVESTING AND FINANCING ACTIVITIES		
Amortization of deferred compensation as share based compensation	\$56,676	\$75,231
Issuance of common stock for services and settlement	\$-	\$40,000
Acceptance of note receivable from related party for sale of Premium Homes	\$163,093	\$-
Issuance of common stock for dividends	\$-	\$9,055

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2011

NOTE A BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Regulation S-K promulgated by the Securities and Exchange Commission (“SEC”) and do not include all of the information and notes required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, these interim financial statements include all adjustments, which include normal recurring adjustments, necessary in order to make the financial statements not misleading. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company and management’s discussion and analysis of financial condition and results of operations included in the Company’s Annual Report for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on Form 10-K.

The balance sheet at December 31, 2010 has been derived from the audited consolidated financial statement of that date, but does not include all of the information and notes required by accounting principles generally accepted in United States of America for complete financial statements.

NOTE B EARNINGS PER SHARE

Basic earnings per share assumes no dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the effect of common shares issuable upon the exercise of stock options and warrants, using the treasury stock method of computing such effects.

NOTE C BUSINESS SEGMENTS

The consolidated financial statements include the accounts of Heartland, Inc. (“Heartland”) and its wholly owned subsidiaries, Mound Technologies, Inc. (“Mound”), Lee Oil Company, Inc. (“Lee Oil”), and Heartland Steel, Inc. (“HS”). All significant intercompany accounts and transactions have been eliminated.

The following tables reflect the Company’s segments at September 30, 2011 and 2010:

HEARTLAND, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2011

NOTE C BUSINESS SEGMENTS (Continued)

Company segments as of and for the period ended September 30, 2011:

	Holding Company (Heartland)	Oil Distributor (Lee Oil)	Steel Fabricator (Mound)	Steel Distributor (HS)	Totals
Total Assets	\$ 2,892,225	\$ 11,482,374	\$ 8,511,589	\$ 3,307,955	\$ 26,194,143
Three Months					
Revenues	-	25,371,354	3,115,298	389,905	28,876,557
Intersegment Revenues	266,999	-	-	32,108	299,107
(Loss) Income					
Before Income Taxes	(184,313)	346,038	127,783	7,616	297,124
Nine Months					
Revenues	-	75,224,851	8,390,047	1,093,529	84,708,427
Intersegment Revenues	905,568	-	-	308,499	1,214,067
(Loss) Income					
Before Income Taxes	(839,882)	780,572	178,333	(361,988)	(242,965)

Company segments as of and for the period ended September 30, 2010:

	Holding Company (Heartland)	Oil Distributor (Lee Oil)	Steel Fabricator (Mound)	Steel Distributor (HS)	Totals
Total Assets	\$ 2,527,813	\$ 12,150,048	\$ 7,803,919	\$ 3,858,699	\$ 26,340,479
Three Months					
Revenues	-	22,227,541	3,251,412	659,086	26,138,039
Intersegment Revenues	264,594	-	-	231,915	496,509
(Loss) Income					
Before Income Taxes	(316,388)	263,326	110,932	(161,651)	(103,781)
Nine Months					
Revenues	-	63,165,999	8,679,515	1,987,895	73,833,409
Intersegment Revenues	793,783	-	-	913,328	1,707,111
(Loss) Income					
Before Income Taxes	(1,066,273)	545,514	446,991	(543,823)	(617,591)

NOTE D SALE OF PREMIUM HOMES

In June 2011, the Company sold Premium Homes to Terry Lee. This resulted in a decrease in inventory and notes payable to related parties of approximately \$350,000. In addition, the Company has recorded a gain from the sale of \$152,700 and a non-interest bearing related party receivable of \$163,093, which represents an advance on Terry Lee's employment compensation and will be reduced by compensation expense. The advance does not bear interest and is expected to be satisfied by December 31, 2011.

HEARTLAND, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2011

NOTE E SUBSEQUENT EVENT

On October 20, 2011, Heartland, Inc. entered into and closed a Shares for Debt Agreement with Lee Holding Company and Gary Lee (collectively, the "Creditors"). As of October 19, 2011, the Company was indebted to the Creditors in the aggregate amount of \$1,084,259.90 Pursuant to the Debt Agreement, the Company agreed to issue to the Creditors and the Creditors agreed to accept an aggregate of 20,164,774 of the Company's Common Stock as full settlement of the Debt. The Company issued 10,082,387 shares of Common Stock to Garry Lee and 10,082,387 shares of Common Stock to Lee Holding Company. Upon signing the Debt Agreement for full settlement of the Debt, the balance owed from Company to the Creditors is \$0.

NOTE F EXTENSION OF DEBT

On September 30, 2011, the Company entered into a modification of the Choice Financial note payable to extend the maturity of the note from October 1, 2011 to December 5, 2011. All remaining items of the note remain unchanged. The note has a balance of \$2,878,495 as of September 30, 2011 and is included in the current portion of the notes payable.

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

The following discussion should be read in conjunction with the financial statements included in this Form 10-Q. The following discussion and analysis provides certain information, which the Company's management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition for the quarterly period ended September 30, 2011. The statements contained in this section that are not historical facts are forward-looking statements that involve risks and uncertainties. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. From time to time, we or our representatives have made or may make forward-looking statements, orally or in writing. Such forward-looking statements may be included in our various filings with the SEC, or press releases or oral statements made by or with the approval of our authorized executive officers.

These forward-looking statements, such as statements regarding anticipated future revenues, capital expenditures and other statements regarding matters that are not historical facts, involve predictions. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. We do not undertake any obligation to publicly release any revisions to these forward-looking statements or to reflect the occurrence of unanticipated events. Many important factors affect our ability to achieve our objectives, including, among other things, technological and other developments within a given field, intense and evolving competition, the lack of an "established trading market" for our shares, and our ability to obtain additional financing, as well as other risks detailed from time to time in our public disclosure filings with the SEC.

Overview

The Company currently manages its business as three operational segments and files as a consolidated entity. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers. The three operational segments we currently report are:

- Mound – Steel Fabrication – Primarily focused on the fabrication of metal products including structural steel, steel stairs and railings, bar joists, metal decks, and other miscellaneous steel products.

- Lee Oil – Oil Distribution – Primarily focused on the wholesale and retail distribution of petroleum products including those sold to the motoring public through our retail locations.

- Heartland Steel – Wholesale Steel – This is a startup segment of the business that we are working to develop into full fledged service center for the distribution of steel products.

Results of Operations

Three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010

Revenues. Revenues increased for the three months ended September 30, 2011 to \$28,431,208 from \$25,854,331 for the three months ended September 30, 2010. The increase in revenue of \$2,576,877 was primarily a result of price increases in the products being sold. Revenues increased for the nine months ended September 30, 2011 to \$83,701,413 from \$73,001,499 for the nine months ended September 30, 2010. The increase in revenue of \$10,699,914 was primarily a result of price increases in the products being sold.

Cost of Goods Sold. Cost of Goods Sold increased for three months ended September 30, 2011 to \$25,933,746 from \$23,262,170 for the three months ended September 30, 2010. The increase in the cost of goods sold of \$2,671,576 was primarily a result of price increases in the products being sold. Cost of Goods Sold increased for nine months ended September 30, 2011 to \$76,714,910 from \$66,000,146 for the nine months ended September 30, 2010. The increase in the cost of goods sold of \$10,714,764 was primarily a result of price increases in the products being sold.

Gross Profit. Gross Profits increased slightly for three months ended September 30, 2011 to \$2,942,811 in comparison to \$2,875,869 for the three months ended September 30, 2010. One of the contributing factors for the gross profits being a little lower than expected was Mound working through some of the jobs they bid in late 2010 and in the first half 2011 which carried tighter margins due to the poor economic conditions. A positive item going forward should be operational improvements that we are beginning to see at Heartland Steel. Gross profits for the nine months ended September 30, 2011 were slightly higher than the same period in 2010.

Expenses. Operating expenses decreased to \$2,585,037 in the three months ended September 30, 2011 compared to \$2,832,562 for the three months ended September 30, 2010. Operating expenses increased slightly to \$8,078,673 in the nine months ended September 30, 2011 compared to \$8,014,445 for the nine months ended September 30, 2010. One of the items included in the second quarter that was a one-time settlement of \$105,000 paid to the U.S. Treasury on past employment taxes. These were not related to any unpaid taxes of the Company, but rather due to "common ownership" on the part of Mound relating back to a company closed many years ago. An additional item related to operating expenses for the three and nine month periods ended September 30, 2011 contributing to increased costs would be transportation costs relating to higher fuel costs as indicated by the increase in revenues and cost of goods sold.

Liquidity and Capital Resources

Our principal sources of liquidity would be cash on hand and the conversion of accounts receivable into cash. We also believe cash provided from operating activities will be a great source of liquidity going forward, but would seek outside financing for any major expansion, betterment project, or possible future acquisitions as these would be considered long term projects.

The Company generated \$394,207 from operating activities during the nine months ended September 30, 2011. This was primarily a result in collection of outstanding receivables.

As of September 30, 2011, the Company believes that cash on hand, cash generated by operations, and available bank borrowings will be sufficient to pay trade creditors, operating expenses in the normal course of business, and meet all of its bank and subordinate debt obligations for the next 12 months.

It is our belief that our stock is currently undervalued and that we are better suited to fund current projects through cash provided from operations and financing rather than attempting to sell what we believe to be an undervalued asset and further dilute the securities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and, as such, are not required to provide the information under this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management assessed the effectiveness of our internal control over financial reporting as of September 30, 2011. In making this assessment, management used the framework set forth in the report entitled Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring.

Based on its evaluation of our disclosure controls and procedures, our management has concluded that during the period covered by this report, such disclosure controls and procedures were not effective and there is a material weakness in our internal control over financial reporting. A material weakness is a deficiency or a combination of control deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

During the current reporting period, certain elements of the internal control system that may prevent the possibility of a misstatement being prevented or detected on a timely basis were found to be missing. These elements related principally to the segregation of duties and oversight in the financial reporting. Management will continue to monitor the identified material weakness and take the necessary steps to mitigate the possible impact on the Company's financial statements.

The presence of these material weaknesses does not mean that a material misstatement has occurred in our financial statements, but only that our present controls might not be adequate to detect or prevent a material misstatement in a timely manner. Management believes that the material weaknesses set forth above did not have an effect on our financial results.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our 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 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and, as such, are not required to provide the information under this Item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of equity securities in the quarter ending September 30, 2011.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

REMOVED AND RESERVED

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

NOT APPLICABLE

ITEM 5. OTHER INFORMATION

On October 20, 2011, Heartland, Inc. entered into and closed a Shares for Debt Agreement with Lee Holding Company and Gary Lee (collectively, the "Creditors"). As of October 19, 2011, the Company was indebted to the Creditors in the aggregate amount of \$1,084,259.90 Pursuant to the Debt Agreement, the Company agreed to issue to the Creditors and the Creditors agreed to accept an aggregate of 20,164,774 of the Company's Common Stock as full settlement of the Debt. The Company issued 10,082,387 shares of Common Stock to Garry Lee and 10,082,387 shares of Common Stock to Lee Holding Company. Upon signing the Debt Agreement for full settlement of the Debt, the balance owed from Company to the Creditors is \$0.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibit 31.1 Certification of Terry L. Lee, Chief Executive Officer & Chairman of the Board

Exhibit 31.2 Certification of Mitchell L Cox, CPA, Chief Financial Officer

Exhibit 32.1 Certification of Terry L. Lee, Chief Executive Officer& Chairman of the Board

Exhibit 32.2 Certification of Mitchell L. Cox, CPA, Chief Financial Officer

EX-101.INS XBRL INSTANCE DOCUMENT

EX-101.SCH XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT

EX-101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE

EX-101.DEF XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

EX-101.LAB XBRL TAXONOMY EXTENSION LABELS LINKBASE

EX-101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

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: November 14, 2011

By: /s/ Terry L. Lee
Terry L. Lee
Chief Executive Officer and
Chairman of the Board
(Principal Executive Officer)

Date: November 14, 2011

By: /s/ Mitchell L. Cox, CPA
Mitchell L. Cox
Chief Financial Officer
(Principal Financial
and Accounting Officer)