HEARTLAND, INC.
Form 10KSB/A
July 06, 2005

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-KSB/A

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**FOR FISCAL YEAR ENDED DECEMBER 31, 2004**

# HEARTLAND, INC.

(Name of small business issuer in its charter)

| | |
|---|---|
| **Maryland** | **36-4286069** |
| (State or other jurisdiction<br>of incorporation or organization)) | (I.R.S. Employer Identification Number) |

**3300 Fernbrook Lane North, Suite 180**
**Plymouth, Minnesota 55447**
(Address of principal executive offices) (Zip Code)

**763.557.2900**

(Issuer s telephone no.)

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, $.001 par value

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 ?

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10- KSB or any amendment to this Form 10-KSB. ?

Issuer s revenues for its most recent fiscal year ended December 31, 2004 were: $50,007,763

The aggregate market value of the Registrant s voting common stock held by non-affiliates of the registrant as of July 5, 2005, was approximately: $17,770,320 at $0.90 price per share. Number of shares of the registrant s common stock outstanding as of March 30, 2005 was: 19,744,801

Transfer Agent as of July 5, 2005: Securities Transfer Corporation
2591 Dallas Parkway, Suite 102

Frisco, TX 75034

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**HEARTLAND INC.**

**FORM 10-KSB**

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**PART I**

## ITEM 1 DESCRIPTION OF BUSINESS

### INTRODUCTION

**FORWARD-LOOKING STATEMENTS**. This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. In addition, the Company (Heartland, Inc., a Maryland corporation), may from time to time make oral forward-looking statements. Actual results are uncertain and may be impacted by many factors. In particular, certain risks and uncertainties that may impact the accuracy of the forward-looking statements with respect to revenues, expenses and operating results include without imitation; cycles of customer orders, general economic and competitive conditions and changing customer trends, technological advances and the number and timing of new product introductions, shipments of products and components from foreign suppliers, and changes in the mix of products ordered by customers. As a result, the actual results may differ materially from those projected in the forward-looking statements.

Because of these and other factors that may affect the Company s operating results, past financial performance should not be considered an indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

### (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 3300 Fernbrook Lane Plymouth, MN 55447, telephone number (763) 557.2900. Our Internet address is www.heartlandholdingsinc.com for the corporate information. Additionally, the following divisions of the company currently maintain Internet addresses: 1)Evans Columbus, www.evanscolumbusllc.com, 2) Monarch Homes, www.monarchhomesmn.com, 3) Karkela www.karkela.com and 4) Mound Technologies 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 2004: 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.

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**(B) BUSINESS DEVELOPMENT**

The Company s original investment strategy when it was regulated as a business development company under the 1940 Act. was to invest in a diverse portfolio of private companies that could be used to build an Internet infrastructure by offering hardware, software and/or services which enhance the use of the Internet. Prior to it s reverse merger with International Wireless, the Company identified two eligible portfolio companies within which they entered into agreements to acquire interests within such companies and to further invest capital in these companies to further develop their business. However, on each occasion and prior to each closing, the Company was either unable to raise sufficient capital to consummate the transaction or discovered information which modified its understanding of the eligible portfolio company s financial status to such an extent where it was unadvisable for it to continue and consummate the transaction. During the 2002 fiscal year, the Company entered into a definitive share exchange agreement and investment agreement with Vivocom, Inc., a San Jose, California based software company that had developed a proprietary all media switching system which enables all forms of data to be sent over a single IP channel. The Company intended on investing a minimum of three million two hundred and fifty thousand dollars ($3,250,000) within Vivocom over several months. Due to the Company s inability to raise this money, the share exchange never took place and the agreement terminated.

On December 7, 2001, the Company held a special meeting of its shareholders in accordance with a filed Form DEF 14A with the Securities and Exchange Commission whereby the shareholders voted on withdrawing the Company from being regulated as a business development company and thereby no longer be subject to the Investment Company Act of 1940 and to effect a one-for-nine reverse split of its total issued and outstanding common stock. On December 14, 2001 the Company filed a Form N-54C with the Securities and Exchange Commission formally notifying its withdrawal from being regulated as a business development company. The purpose of the withdrawal of the Company from being regulated as a business development company and the one-for-nine reverse split of its total issued and outstanding common stock was to allow the Company to merge with a potential business in the future. By withdrawing from its status as a business development company, the Company chose to be treated as a publicly traded C corporation.

On December 27, 2001, the Company went through a reverse merger whereby it acquired all the outstanding shares of International Wireless. Under the said reverse merger, the former Shareholders of International Wireless ended up owning an 88.61% interest in the Company. Thereafter on January 2, 2002, the Company changed its name from Origin to International Wireless, Inc.

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.

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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 one hundred percent (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 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 and Subsidiaries.

On December 27, 2004, the Company entered into an Acquisition Agreement to acquire one hundred percent (100%) of Monarch Homes, Inc. ( Monarch ), a Minnesota corporation with its corporate headquarters located in Ramsey, MN for five million dollars ($5,000,000). The acquisition price was made up of: 1) $100,000 at closing, 2) a promissory note of $1,900,000 payable on or before February 15, 2005 which, if not paid by that date, interest shall be due from then to actual payment at 8%, simple interest, compounded annually and 3) six hundred sixty-seven thousand (667,000) restricted newly issued shares of the Company s common stock provided at closing. In the event the common stock of the Company not is trading at a minimum of $5.00 as of December 27, 2005, the Company is required to compensate the original Monarch shareholders for the difference in additional stock. As a result of this transaction, Monarch became a wholly owned subsidiary of the

Company.

On December 30, 2004, the Company entered into an Acquisition Agreement to acquire one hundred percent (100%) of Evans Columbus, LLS ( Evans ), an Ohio corporation with its corporate headquarters located in Blacklick, OH for three million five thousand dollars ($3,005,000). The acquisition price was made up of: 1) $5,000 at closing, and 2) six hundred thousand (600,000) 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 $5.00 as of December 30, 2005, the Company is required to compensate the original Evans shareholders for the difference in additional stock. As a result of this transaction, Evans became a wholly owned subsidiary of the Company.

On December 31, 2004, the Company entered into an Acquisition Agreement to acquire one hundred percent (100%) of Karkela Construction, Inc. ( Karkela ), a Minnesota corporation with its corporate headquarters located in St. Louis Park, MN for three million dollars ($3,000,000). The acquisition price was made up of: 1) $100,000 at closing, 2) a short term promissory note payable of $50,000 on or before January 31, 2005, 3) 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 4) five hundred thousand (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 is required to compensate the original Karkela shareholders for the difference in additional stock. As a result of this transaction, Karkela became a wholly owned subsidiary of the Company.



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**(C) BUSINESS**

The Company s mission is to become a leading diversified company with business interests in well established service organizations and capital goods manufacturing companies focusing in the areas of 1) Steel Fabrication, 2) Construction and Property Management (residential and commercial), 3) Agriculture (currently idle), and 4) Manufacturing The Company plans to successfully grow its revenue by acquiring companies with historically profitable results, strong balance sheets, high profit margins, and solid management teams in place. By providing access to financial markets, expanded marketing opportunities and operating expense efficiencies, the Company expects to become the facilitator for future growth and higher long-term profits. In the process, the Company expects to develop new synergies among the acquired companies, which should allow for greater cost effectiveness and efficiencies, and thus further enhancing each individual company s strengths. To date, the Company has completed acquisitions in steel fabrication, residential and commercial construction facilities, and heavy machinery industries.

The Company is headquartered in Plymouth, MN and currently trades on the OTC Bulletin Board under the symbol HTLJ.OB. Including the senior management team, Heartland currently employs 101 people.

Currently, the Company operates four major subsidiaries in the following segments:

1) Mound Technologies, Inc. of Springboro, OH acquired in December 2003 (Steel Fabrication)

2) Evans Columbus, LLC of Columbus, OH acquired in December of 2004 (Manufacturing)
3) Monarch Homes, Inc. of Ramsey, MN, acquired in December of 2004 (Construction and Property Management).
4) Karkela Construction, Inc. of St. Louis Park, MN, acquired in December of 2004 (Construction and Property Management).

These subsidiaries have an average operational history of more than 35 years, and each is characterized by a track record of consistent and stable growth.

Excluding corporate expenses, the complementary nature of the operations of the four segments offers the Company the opportunity to increase its top line revenue through cross selling opportunities and expanded marketing opportunities. Furthermore, the Company expects it will be able reduce overall expenses through cost savings associated with reductions in raw materials costs and corporate and administrative expenses.

**Steel Fabrication**

Mound Technologies, Inc. ( Mound ) was incorporated in the state of Nevada in November of 2002, with its corporate offices located in Springboro, Ohio. This business includes a Steel Fabrication ( Steel Fabrication ), a Property Management Division ( Property Management ) and a wholly owned subsidiary, Freedom Products of Ohio ( Freedom ).

The Steel Fabrication Division and Property Management Division are both located in Springboro, Ohio. The Steel Fabrication Division is a full service structural and miscellaneous steel fabricator. It also manufactures steel stairs and railings, both industrial and architectural quality. The present capacity of the facility is approximately 6,000 tons per year of structural and miscellaneous steel. This division had been previously known as Mound Steel Corporation, which was started at the same location in 1964.

Freedom is a wholly owned subsidiary of Mound located in Middletown, Ohio. Freedom manufactures products for the heavy machinery industry and has the ability to do complete assembly and testing if required. This includes machine bases, breeching, pollution control abatement fabrications and material handling fabrications. Freedom has the capacity to fabricate weldments and assemblies of up to 50 tons total weight.

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**1a) Steel Fabrication Division:**

The Steel Fabrication Division is focused on the fabrication of metal products. This Division produces structural steel, miscellaneous metals, steel stairs, railings, bar joists, metal decks and the erection thereof. This Division produced gross sales of approximately $7.4 million in 2004. In the steel products segment, steel joists and joist girders, and steel deck are sold to general contractors and fabricators throughout the United States. Substantially all work is to order and no unsold inventories of finished products are maintained. All sales contracts are firm fixed-price contracts and are normally competitively bid against other suppliers. Cold finished steel and steel fasteners are manufactured in standard sizes and inventories are maintained.

This Division s customers are typically U.S. based companies that require large structural steel fabrication, with needs such as building additions, new non-residential construction, etc. Customers are typically located within a one-day drive from the Company s facilities. The Company is able to reach 70% of the U.S. population, yielding a significant potential customer base. Marketing of the Division s products is done by advertising in industry directories, word-of-mouth from existing customers, and by the dedicated efforts of in-house sales staff monitoring business developments opportunities within the Company s region. Large clients typically work with the Company on a continual basis for all their fabricated metal needs.

Competition overall in the U.S. steel fabrication industry has been reduced by approximately 50% over the last few years due to economic conditions leading to the lack of sustained work. The number of regional competitors has gone down from ten (10) to three (3) over the past five years. Larger substantial work projects have declined dramatically with the downturn in the economy. Given the geographical operating territory of the Company, foreign competition is not a major factor. In addition to competition, steel pricing represents another significant challenge. The cost of steel, our highest input cost, has seen significant increases in recent years. The Company will manage this challenge by stockpiling the most common steel component products and incorporating price increases in job pricing as deemed appropriate.

**1b) Freedom Products of Ohio, Inc.:**

Freedom Products of Ohio ( Freedom ) is a wholly owned subsidiary of Mound. Freedom manufactures products for the heavy machinery industry and has the ability to do complete assembly and testing if required. This includes machine bases, breeching, pollution control abatement fabrications and material handling fabrications. Freedom has the capacity to fabricate weldments and assemblies up to 50 tons total weight. Freedom is located in Middletown, Ohio.

The primary raw material for the steel mills segment is ferrous scrap, which is acquired from numerous sources throughout the country. The steel mills are also large consumers of electricity and natural gas. The primary raw material for the steel products segment is steel, which is primarily purchased from the steel mills segment. Supplies of raw materials and energy have been, and are expected to be, adequate to operate the facilities.

**Competition and Other Factors**

We are subject to a wide variety of federal, state, and international environmental laws, rules, and regulations. These laws, rules, and regulations may affect the way we conduct our operations, and failure to comply with these regulations could lead to fines and other penalties.

Competition within the steel industry, both in the United States and globally, is intense and expected to remain so. Mound competes with large U.S. competitors such as United States Steel Corporation, Nucor Corporation, AK Steel Holding Corporation, Ispat Inland Inc. and IPSCO Inc along with a number of local supplies. The steel market in the United States is also served by a number of non-U.S. sources and U.S. supply is subject to changes in worldwide demand and currency fluctuations, among other factors.

More than 35 U.S. companies in the steel industry have declared bankruptcy since 1997 and have either ceased production or more often continued to operate after being acquired or reorganized. In addition, many non-U.S. steel producers are owned and subsidized by their governments and their decisions with respect to production and sales may be influenced by political and economic policy considerations rather than by prevailing market conditions. The steel industry is highly cyclical in nature and subject to significant fluctuations in demand as a result of macroeconomic changes in global economies, including those resulting from currency volatility. The global steel industry is also generally characterized by overcapacity, which can result in downward pressure on steel prices and gross margins.

Mound competes with other flat-rolled steel producers (both integrated steel mills and mini-mills) and producers of plastics, aluminum, ceramics, carbon fiber, concrete, glass, plastic and wood that can be used in lieu of flat-rolled steels in manufactured products. Mini-mills generally offer a narrower range of products than integrated steel mills but can have some cost advantages as a result of their different production processes.

Price, quality, delivery and service are the primary competitive factors in all markets that Mound serves and vary in relative importance according to the product category and specific customer.

In some areas of our business, we are primarily an assembler, while in others we serve as a fully integrated manufacturer. We have strategically identified specific core manufacturing competencies for vertical integration and have chosen outside vendors to provide other products and services. We design component parts in cooperation with our vendors, contract with them for the development of tooling, and then enter into agreements with these vendors to purchase component parts manufactured using the tooling. Operations are also designed to be flexible enough to accommodate product design changes required to respond to market demand.

**Raw Materials**

Mound s business depends on continued access to reliable supplies of various raw materials. Mound believes there will be adequate sources of its principal raw materials to meet its near term needs, although probably at higher prices than in the past.

**Unfair Trade Practices and Trade Remedies**

Under international agreement and U.S. law, remedies are available to domestic industries where imports are dumped or subsidized and such imports cause material injury to a domestic industry. Dumping involves selling for export a product at a price lower than the same or similar product is sold in the home market of the exporter or where the export prices are lower than a value that typically must be at or above the full cost of production. Subsidies from governments (including, among other things, grants and loans at artificially low interest rates) under certain circumstances are similarly actionable. The remedy available is an antidumping duty order or suspension agreement where injurious dumping is found and a countervailing duty order or suspension agreement where injurious subsidization is found. When dumping or subsidies continue after the issuance of an order, a duty equal to the amount of dumping or subsidization is imposed on the importer of the product. Such orders and suspension agreements do not prevent the importation of product, but rather require either that the product be priced at an undumped level or without the benefit of subsidies or that the importer pay the difference between such undumped or unsubsidized price and the actual price to the U.S. government as a duty.

**Section 201 Tariffs**

On March 20, 2002, in response to an investigation initiated by the office of the President of the United States under Section 201 of the Trade Act of 1974, the President of the United States imposed a remedy to address the serious injury to the domestic steel industry that was found. The remedy was an additional tariff on specific products up to 30% (as low as 9%) in the first year and subject to reductions each year. The remedy provided was potentially for three years and a day, subject to an interim review after 18 months as to continued need. On December 4, 2003 by Proclamation 7741, the President of the United States terminated the import relief provided under this law pursuant to Section 204(b) (1) (A) of the Trade Act of 1974 on the basis that the effectiveness of the action taken under Section 203 has been impaired by changed economic circumstances based upon a report from the U.S. International Trade Commission and the advice from the Secretary of Commerce and the Secretary of Labor. Thus, no relief under this law was provided to domestic producers during 2004.

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**Environmental Matters**

Mounds operations are subject to a broad range of laws and regulations relating to the protection of human health and the environment. Mound expects to expend in the future, substantial amounts to achieve or maintain ongoing compliance with U.S. federal, state, and local laws and regulations, including the Resource Conservation and Recovery Act (RCRA), the Clean Air Act, and the Clean Water Act. These environmental expenditures are not projected to have a material adverse effect on Mound s financial position or on Mound s competitive position with respect to other similarly situated U.S. steelmakers subject to the same environmental requirements.

**Construction and Property Management**

**a)** **Monarch Homes, Inc.**

Monarch Homes, Inc., ( Monarch ) was acquired in December 2004, is a builder of custom residential homes in the state of Minnesota. Monarch is located in Ramsey, MN, and was acquired in December of 2004. Our domestic homebuilding operations currently involve the purchase and development of land or lots and the construction and sale of single-family homes, town homes and low-rise condominiums. Monarch was founded in 1995 and had annual sales of approximately $23 million during the current fiscal year. Over the course of the past ten years, Monarch has become one of the region s premier builders of quality homes in planned communities in the northern and northwestern suburbs of Minneapolis and St. Paul, Minnesota. In fiscal 2004, Monarch sold 87 homes, including first-time, move-up and, in some markets, custom homes, ranging in price from approximately $160,000 to $600,000. The average sales price in fiscal 2004 was approximately $275,000.

Our practice has been to acquire land, build homes on the land and sell the homes within 24 to 36 months from the date of land acquisition. Generally, this involves acquiring land that is properly zoned and is either ready for development or, to some degree, already developed. We control a substantial amount of our land, including lots and land to be developed into lots, through option agreements that we can exercise over specified time periods or, in certain cases, as the land or lots are needed. At December 31, 2004, Monarch owned approximately 20 lots and has two exclusive agreements with developers. Our growth strategy for Monarch has been focused primarily on organic growth opportunities through land acquisition and development in existing business units and markets.

It is the intent of the Company to expand this business unit into the construction of super energy efficient homes using new EPS technology that allows for custom construction, with greatly increased R ratings. An agreement is in process to have exclusive rights to this type of construction product in the area of Central America. The company believes that this will reduce the seasonality associated with the construction industry.

**b)** **Karkela Construction, Inc.**

Karkela Construction, Inc. ( Karkela ) was acquired in December 2004 and located in St. Louis Park, MN. Karkela was acquired in December 2004 and is a general contractor in the greater St. Paul and Minneapolis, Minnesota area specializing in commercial, industrial, hospitality or multi-family space. More specifically, Karkela is a designer and builder of custom office buildings for medical, financial and other service type businesses. Karkela was originally founded in 1983 and incorporated in 1990. During fiscal year 2004 Karkela had revenues of approximately $11.8 million. It is the intent of Heartland to expand that territory to include those geographies where the company can benefit from its reputation.

**c)** **Mound Property Management Division**

The Property Management Division is both located in Springboro, Ohio. The Mound Property Management Division is focused on the ownership and management of industrial property, in Ohio. The Property Management Division presently owns two (2) properties and manages three (3) other properties which are all located in Ohio. The two owned properties include 37,000 square feet of light and heavy manufacturing buildings on approximately 6 acres. The Company manages 33 acres of industrial property in Ohio, which is not owned.



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**Competition and Other Factors**

The conventional construction industry is essentially a local business and is highly competitive. The top 10 builders, in the United States, in calendar year 2003 accounted for approximately 15.1% of the total for-sale attached and detached housing permits in the United States. Monarch and Karkela compete in each market with numerous other homebuilders and general construction companies, including national, regional and local builders. The industries top six competitors based on revenues for their most recent fiscal year-end are as follows: Beazer Homes USA, Inc., D. R. Horton, Inc., KB Homes, Lennar Corporation, Pulte Homes, Inc. and The Ryland Group, Inc. The main competitive factors affecting Monarch and Karkela operations are location, price, availability of mortgage financing for customers, construction costs, design and quality of homes, customer service, marketing expertise, availability of land, price of land and reputation. We believe that Monarch and Karkela compete effectively by building high quality units, maintaining geographic diversity, responding to the specific demands of each market and managing the operations at a local level.

The construction industry is affected by changes in national and local economic conditions, job growth, long-term and short-term interest rates, consumer confidence, governmental policies, zoning restrictions and, to a lesser extent, changes in property taxes, energy costs, federal income tax laws, federal mortgage financing programs and various demographic factors. The political and economic environments affect both the demand for construction and the subsequent cost of financing. Unexpected climatic conditions, such as unusually heavy or prolonged rain or snow, may affect operations in certain areas.

The construction industry is subject to extensive regulations. The Company and its subcontractors must comply with various federal, state and local laws and regulations, including worker health and safety, zoning, building standards, erosion and storm water pollution control, advertising, consumer credit rules and regulations, and the extensive and changing federal, state and local laws, regulations and ordinances governing the protection of the environment, including the protection of endangered species. The Company is also subject to other rules and regulations in connection with its manufacturing and sales activities, including requirements as to incorporate building materials and building designs. All of these regulatory requirements are applicable to all construction companies, and, to date, compliance with these requirements has not had a material impact on the operation. We believe that the Company is in material compliance with these requirements.

We purchase materials, services and land from numerous sources (primarily local vendors), and believe that we can deal effectively with the challenges we may experience relating to the supply or availability of materials, services and land.

The results of operations of our Property Management segment may be adversely affected by increases in interest rates. Any significant increase in mortgage interest rates above currently prevailing low levels could affect the ability or willingness of prospective buyers to finance their purchases. Although we expect that we would be able to make adjustments in our operations to mitigate the effects of any increase in interest rates, there can be no assurances that these efforts would be successful.

This Property Management segment faces competition from real estate investment trusts (REIT s), which are already among the largest commercial property owners in the United States. With over 300 public and private REIT s in the United States, they have slowly been growing their holdings through acquisitions. Most REIT s, however, do not specialize in industrial and office properties.

**Manufacturing**

Evans Columbus, LLC, ( Evans ) acquired in December 2004, that manufactures 55-gallon steel drums at a production rate of approximately 3,000 drums per day. Evans Columbus, which was founded in1955, generated revenues of approximately $8 million in 2004. Manufacturing is carried out in a fully equipped 70,000 square foot facility located in Columbus, Ohio. This facility is able to do various coated products as well as standard painted drums. Prior to its acquisition by Heartland, Evans Columbus was a family owned and operated business.

In order to utilize manufacturing facilities and technology more effectively, we pursue continuous improvements in manufacturing processes. We have some flexible assembly lines to deliver products when customers require them. Additionally, considerable effort is spent to reduce manufacturing costs through process improvement, product and platform design, application of advanced technology, enhanced environmental management systems, and better supply-chain management.

Our production levels and inventory management goals are based on estimates of demand for our products, taking into account production capacity, timing of shipments, and field inventory levels. We also periodically shut down production to allow for maintenance, rearrangement, and capital equipment installation at the manufacturing facilities.

Incorporatedinto our Quality Policy, Evansmaintains a regular preventative maintenance and calibration schedule. Our dedicated maintenance crew is on-the-job at all times. During manufacturing shifts, we are testing to make sure drums are manufactured to meet customer specification and governmental regulations. Regular preventative maintenance protects the plant equipment and assures reliability and continuity of supply.

**Competition and Other Factors**

The steel container industry is the third-largest steel user, next to the automobile industry and the appliance industry. Steel drum-makers, who manufacture 55-gallon drums that hold products ranging from chocolate for ice cream bars to coatings for jelly beans, make up about 40 percent of the steel container industry. The steel drum industry mainly uses cold-rolled steel.

There are approximately 14 manufacturers of 55 gallon steel drums nationwide. The three major competitors of the company are North Coast Container (Cleveland, Ohio), Berenfield Containers (Mason, OH), and Grief Bros Corporation (Delaware, Ohio) which are all larger than Evans. The region where Evans is located is one of the more heavily concentrated areas for 55 gallon drum manufactures and users.

Attention to environmental compliance is practiced throughout the plant. Working in concert with the Ohio and Federal EPA, we continue to incorporate safe manufacturing processes. Rigorous testing throughout the plant ensures safety for our employees, neighbors and the environment.

Evans is subject to the risks associated with the steel industry, in particular to the cost of raw materials, energy and labor supply all of which are managed effectively. The company is reliant upon several distributors through out the Ohio Valley region. Evans sells it products to customers based upon superior quality and service and not specifically on price which leads to repeat business and less impact on economical affects (i.e. interest rates).

**Other**

The Company s mission is to become a leading diversified company with business interests in well established service organizations and capital goods manufacturing companies.

**Competition and Other Factors**

In addition to the risks identified above the Company also faces risks of its own. The Company is reliant upon identifying, contracting and financing each of acquisition it identifies. Since the Company, is in its early stages, it may not be able to obtain the necessary funding to continue its growth plan. Additionally, the potential synergies identified with each of the acquisitions may not materialize to the extend, if at all, as initially identified.

We will need to secure a minimum of $5,000,000 to satisfy such requirements for the next 12 months, which funds will be used for debt payment, facilities acquisition, lease obligations and personnel costs including salaries and benefits. We are pursing many financing options wh