

HEARTLAND, INC.  
Form 10-K  
March 31, 2010

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

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009  
Commission file number 000 – 27045

Heartland, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

36-4286069

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer Identification No.)

1005 N. 19th Street Middlesboro, KY  
(Address of Principal Executive Offices)

40965  
(Zip Code)

Registrant's telephone number, including area code: (606) 248-7323  
Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange<br>on Which Registered |
|---------------------|--|
| N/A                 | N/A  |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes o No þ.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Act. Yes o No þ.

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 þ No o.

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

|   |   |  |   |
|---|---|--|---|
| Large accelerated<br>filer <input type="checkbox"/> | Accelerated<br>filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/><br>(Do not check if a smaller<br>reporting company) | Smaller reporting<br>company <input type="checkbox"/> |
|---|---|--|---|

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

As of March 25, 2010, the aggregate market value of the registrant's Common Stock (based upon the \$0.28 closing price on that date) held by nonaffiliates (excludes shares reported as beneficially owned by directors and officers) was approximately \$4,594,827.

As of March 25, 2010, there were 21,953,590 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

HEARTLAND, INC.  
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## FORWARD LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements which include, but are not limited to, statements concerning expectations as to our revenues, expenses, and net income, our growth strategies and plans, the timely development and market acceptance of our products and technologies, the competitive nature of and anticipated growth in our markets, our ability to achieve cost reductions, the status of evolving technologies and their growth potential, the adoption of future industry standards, expectations as to our financing and liquidity requirements and arrangements, the need for additional capital, and other matters that are not historical facts. These forward-looking statements are based on our current expectations, estimates, and projections about our industry, management's beliefs, and certain assumptions made by it. Words such as "anticipates", "appears", "expects", "intends", "plans", "believes", "seeks", "estimates", "may", "will" and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements, are not guarantees of future performance and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results could differ materially and adversely from those results expressed in any forward-looking statements, as a result of various factors. Readers are cautioned not to place undue reliance on forward-looking statements, which are based only upon information available as of the date of this report. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Unless the context indicates otherwise, the terms "Company", "Corporate", "Heartland", "our", and "we" refer to Heartland, Inc. and its subsidiaries.

## PART I

### ITEM 1 BUSINESS

#### (A) THE COMPANY

Heartland, Inc. (the "Company") was incorporated in the State of Maryland on April 6, 1999.

The Company operates in several States through the following three wholly-owned subsidiaries:

- Mound Technologies, Inc. ("Mound") which is based in Springboro, OH and commenced operations at the same location in 1964 under the name Mound Steel Corporation.
- Lee Oil Company, Inc. and its wholly owned subsidiaries Lee Enterprises, Inc. and Lee's Food Marts, LLC (collectively "Lee Oil") which is based in Middlesboro, KY and commenced operations in 1988.
- Heartland Steel, Inc. ("Heartland Steel") which is based in Washington Court House, OH and commenced full operations during the fourth quarter of 2009.

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 – Steel Distribution – Primarily focused on the wholesale distribution of steel products to steel fabricators and contractors.

Our corporate offices are located at 1005 N. 19th Street in Middlesboro, KY, and the telephone number is (606) 248-7323. Our Internet address is [www.heartlandholdingsinc.com](http://www.heartlandholdingsinc.com) for the corporate information. Additionally, the Mound Technology division of the company currently maintains an Internet addresses at [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-K and should not be considered part of this report.

### Decentralized Management with Strong Corporate Infrastructure

Our corporate group is responsible for maintaining a unified infrastructure to support our diversified operations through standardized financial and accounting, safety, environmental and maintenance processes and controls. Below our corporate level, we operate a decentralized operational organization in which our three chief operational officers are responsible for their operations, including asset management, cost control, policy compliance and training and other aspects of quality control. With an average of over 25 years of industry experience, each regional manager has extensive knowledge of the customer base, job requirements and working conditions in each local market. This management structure allows us to monitor operating performance on a daily basis, maintain financial, accounting and asset management controls, integrate acquisitions, prepare timely financial reports and manage contractual risk.

### Compliance Policies and Procedures.

We have adopted and implemented policies and procedures reasonably designed to prevent violation of the federal securities laws, and review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation.

## (B) BUSINESS DEVELOPMENT

### Mission

Our mission is to become a leading diversified company with business interests in well established industries. We plan to successfully grow our revenues by acquiring companies with historically profitable results, strong balance sheets, sustainable cash flows, and solid management teams in place. By providing access to financial markets, expanded marketing opportunities and operating expense efficiencies, we hope to become the facilitator for future growth and higher long-term profits. In the process, we hope to develop new synergies among the acquired companies, which should allow for greater cost effectiveness and efficiencies, thus further enhancing each individual company's strengths.

### Expansion

We intend to continue strengthening our presence within our existing geographic footprint through internal growth and acquisitions of businesses with strong customer relationships and experienced and skilled personnel.

### Capital Development

We intend to continue growing our business through selective acquisitions and/or upgrading our existing assets. Our capital investment decisions are determined by an analysis of the projected return on capital employed for each of those alternatives. Acquisitions are evaluated for "fit" within our stated goals and thoroughly reviewed by corporate level personnel before any acquisition is considered. We also evaluate the cost to acquire existing assets from a third party versus the capital required to buy or build new assets.

Based on these factors, we make capital investment decisions that we believe will support our long-term growth strategy and these decisions may involve a combination of asset acquisitions and/or the purchase of assets as deemed necessary.

In 2009, we constructed a new warehouse with adjoining office space on the property located in Washington Court House, OH. This site has become the base of operations for Heartland Steel. The original construction loan of \$2,400,000 was converted on December 8, 2009 into a regular installment loan secured by the property with monthly payments of \$16,635. The total amount recorded as our cost basis in the new warehouse is \$2,014,229 with the basis of the land remaining at \$441,248.

On June 3, 2009 we purchased a larger and more modern retail outlet for one of the older Lee's Food Marts located in Tazewell, TN. This new site, which had previously been branded Chevron, has been converted over to a Marathon branded site and is fully operational. The total cost associated with the purchase of the new location was \$888,856 and was funded primarily with a bank note secured by the property in the amount of \$626,384. Allocation of the purchase price was \$208,856 to land, \$564,000 to building, and \$116,000 to equipment.

We believe all the uses of capital described above fall within the scope of our mission and will benefit the Company going forward.

## (C) OPERATIONS

### STEEL FABRICATION SEGMENT

Mound Technologies, Inc. (“Mound”) was incorporated in the state of Nevada in November of 2002, with its corporate offices located in Springboro, Ohio. Mound is in the business of Steel Fabrication (“Steel Fabrication”).

Mound is located in Springboro, Ohio and 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. Mound had been previously known as Mound Steel Corporation, which was started at the same location in 1964.

Mound is focused on the fabrication of metal products. Mound produces structural steel, miscellaneous metals, steel stairs, railings, bar joists, metal decks and the erection thereof. Fabricated products are sold to general contractors and industrial customers 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.

This subsidiary’s customers are typically U.S. based companies and institutions that require large structural and miscellaneous steel fabrication including major new building construction. Customers are typically located within a one-day drive from the Company’s facilities although Mound has performed work as far away as Alberta, Canada. The Company is able to reach 70% of the U.S. population within a one day drive from the Ohio location, yielding a significant potential customer base. Marketing of the subsidiary’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 most of their fabricated metal needs.

### OIL DISTRIBUTION SEGMENT

Lee Oil Company, Inc. and its wholly owned subsidiaries of Lee’s Food Marts, LLC and Lee Enterprises, Inc. (collectively “Lee Oil”) are headquartered in Middlesboro, KY. Lee Oil Company serves as the wholesaler and supplier to the two subsidiaries that run the retail operations.

Lee Oil was started in 1988 as a two person operation and has grown to currently operating 23 convenience stores and selling approximately 35 million gallons of product through a combination of both retail and wholesale operations.

Lee Oil Company is incorporated in the Commonwealth of Virginia and has been domesticated in both the State of Tennessee and the Commonwealth of Kentucky. Lee’s Food Marts, LLC was organized in the State of Tennessee while Lee Enterprises, Inc was incorporated in the Commonwealth of Kentucky. Currently, operations are centered in the Southeastern portion of Kentucky, the Northeastern portion of Tennessee, and the Southwestern portion of Virginia.

Lee Oil Company operates as both a wholesaler and retailer while the two subsidiaries operate only retail locations selling directly to the public. The retail locations we operate are branded by one of the major oil companies. We currently have the ability to brand a store one of three different brands: BP, Marathon, and ExxonMobil.

Lee Oil is focused on the distribution of petroleum products and that has taken a number of different forms. We currently operate the 23 convenient stores mentioned above and sell products on a consignment basis through a



number of other stores. We also deliver products directly to other retail locations, home heating customers, and other customers ranging from mining operations to local school districts.

#### STEEL DISTRIBUTION SEGMENT

Heartland Steel is incorporated in the State of Ohio. Operations were limited during 2009 while construction of a new warehouse and office took place on the property located in Washington Court House. Plans are for this service center to be able to service clients primarily within 200 miles of the warehouse. This allows deliveries to be made by a single driver in one day. The products supplied range from the basic steel beams to customized steel plate cut to a customer's specifications.

#### Competition at Mound

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. 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 fluctuations 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.

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. Mound Technologies, Inc. differentiates itself from other steel fabricators by maintaining high quality standards as evidenced by certification through the American Institute of Steel Construction as well as the Canadian Welding Bureau.

#### Competition at Lee Oil

The retail fuel business is driven almost exclusively by the price and availability of product. The motoring public demands that the price we charge for the products we sell be in line with those of our competitors. The days of being able to charge a higher amount for “branded” products over the “unbranded” products are gone. Anytime our prices get out of line with our competitors, we can see a quick and dramatic change in the volume of that particular store.

The wholesale side of the fuel business doesn’t necessarily depend as much on price as the availability and dependability of being able to make deliveries of the products requested in a timely fashion over and over again. Customers depend on these deliveries in order to continue operations and schedule their shipments to arrive just prior to running out of product.

The “Big Box” outlets such as Wal-Mart and Kroger getting into the fuel business have had a dramatic effect on the overall competition remaining. Many distributors have ceased operations over the last 10 years and many more may do so in the near future due mainly to the operational margins being squeezed as more and more of these high volume and low margin outlets are brought into the market.

#### Competition at Heartland Steel

Heartland Steel is a wholesaler of steel products and would be subject to intense competition from others in the wholesale arena. As with most wholesale operations, being able to deliver a product in a timely fashion and at a reasonable price when compared to your competition is critical. Heartland Steel can also provide customized steel plate as part of the product line and this side of the business relies less on price and more on being able to meet certain specifications detailed by the customer. We believe Heartland Steel will be competitive in price against our competitors in the wholesale area of the business as well as being able to provide customized products that others in the region simply can’t provide.

#### Regulation

All operations are subject to a broad range of laws and regulations relating to the protection of human health and the environment. We expect to expend substantial amounts in the future to achieve or maintain ongoing compliance with U.S. federal, state, and local laws and regulations, including the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 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 our financial position or on our competitive position since others within our businesses are subject to the same environmental requirements. 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.

The Comprehensive Environmental Response, Compensation and Liability Act, referred to as “CERCLA” or the Superfund law, and comparable state laws impose liability, without regard to fault on certain classes of persons that are considered to be responsible for the release of a hazardous substance into the environment. These persons include the current or former owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of hazardous substances that have been released at the site. Under CERCLA, these persons may be subject to joint and severe liability for the costs of investigating and cleaning up hazardous

substances that have been released into the environment, for damages to natural resources and for the costs of some health studies. In addition, companies that incur liability frequently confront additional claims because it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment.

The federal Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, referred to as "RCRA", generally does not regulate most wastes generated by the exploration and production of oil and natural gas because that act specifically excludes drilling fluids, produced waters and other wastes associated with the exploration, development or production of oil and gas from regulation as hazardous wastes. However, these wastes may be regulated by the EPA or state agencies as non-hazardous wastes as long as these wastes are not commingled with regulated hazardous wastes. Moreover, in the ordinary course of our operations, industrial wastes such as paint wastes and waste solvents as well as wastes generated in the course of our providing well services may be regulated as hazardous waste under RCRA or hazardous substances under CERCLA.

We currently own or lease, and have in the past owned or leased, a number of properties that have been used for many years in the storage of certain petroleum products. Although we have utilized operating and disposal practices that were standard in the industry at the time, there is the possibility that activities on or products stored in these facilities may have resulted in the disposal or release of hydrocarbons or other wastes on or under these properties. In addition, we own or lease properties that in the past were operated by third parties whose operations were not under our control. These properties and the hydrocarbons or wastes disposed thereon may be subject to CERCLA, RCRA and analogous state laws. Under these laws, we could be required to remove or remediate previously disposed wastes or property contamination. We believe that we are in substantial compliance with the requirements of CERCLA and RCRA.

#### Supplies

We depend on continued access to reliable supplies of various material and products in all segments of our business. We believe there will be adequate sources of these supplies in order to meet our near term needs, although probably at prices that can fluctuate greatly in a very short period of time.

#### Employees

At December 31, 2009, we had approximately 230 full-time employees. None of our employees are represented by a union or covered by a collective bargaining agreement. We believe that our relationship with our employees is good.

Our success is dependent, in part, upon our ability to attract and retain qualified management and technical personnel and subcontractors. Competition for these personnel is intense, and we will be adversely affected if we are unable to attract key employees. We presently do not have a stock option plan for key employees and consultants.

#### Customers

Overall, our management believes that long-term we are not dependent on a single customer. While the loss of any substantial customer could have a material short-term impact, we believe that our diverse distribution channels and customer base should reduce the long-term impact of any such loss.

#### ITEM 1A RISK FACTORS

As a smaller reporting company, we are not required to include disclosure under this item.

#### ITEM 1B UNRESOLVED STAFF COMMENTS

As a smaller reporting company, we are not required to include disclosure under this item.

#### ITEM 2 PROPERTIES

The following properties are used in the operation of our business:

Corporate

Our principal executive and administrative offices are located at 1005 N. 19th Street in Middlesboro, Kentucky 40965. Our phone number is (606) 248-7323. We are currently utilizing space available at Lee Oil's main office in an effort to save costs at the corporate level and promote a more centralized organization with direct oversight of ongoing operations. This space may not be sufficient for us as we add employees to the corporate staff. In light of this, the corporation will evaluate its office needs and determine the best option as we continue to grow.

#### Steel Fabrication

The main facility being used by Mound is an approximately 39,000 square feet building located at 25 Mound Park Drive, in Springboro, OH. This facility accommodates both the office and manufacturing plant for Mound.

### Bulk Plants

Lee Oil owns two bulk plants for the storage and distribution of petroleum products. The main plant is located at 1005 N. 19th Street in Middlesboro, KY. The second plant is located on Hwy 58 in Jonesville, VA. These two plants serve the wholesale side of the business as well as providing the needed office space at both locations.

### Retail Operations

The following chart details the number of retail sites that we currently lease or own. Two of the stores we show as being owned are actually being run through independent dealers and we split the profit from the sale of the products in lieu of rental payments.

| State     | Number of Owned Sites | Number of Leased Sites | Remaining Lease < 3 Years | Remaining Lease > 3 Years |
|-----------|-----------------------|------------------------|---------------------------|---------------------------|
| Tennessee | 8                     | 9                      | 2                         | 7                         |
| Kentucky  | 3                     | 4                      | 4                         | 0                         |
| Virginia  | 2                     | 1                      | 1                         | 0                         |
|           | 13                    | 14                     |                           |                           |

Most of our retail fuel and convenience store leases are net leases requiring us to pay taxes, insurance and maintenance costs. Of the leases that expire in less than three years, we anticipate that we will be able to negotiate acceptable extensions of the leases for those locations that we intend to continue operating. We believe that none of these leases are individually material.

### Heartland Steel

Heartland Steel, is situated on approximately 38 acres of property located at 1629 Old US 35 SE, Washington Court House, OH 43160. Our plant is 59,000 square feet which includes the warehouse/plant and office. The actual warehouse was designed and built specifically with the loading and unloading of steel beams in mind. Dual drive-through passages at the end of the warehouse that are large enough to accommodate full sized tractor and trailer loads of steel as well as four overhead cranes help with the movement of these heavy beams and other inventory related items.

### ITEM 3 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. There is no past, pending or, to our knowledge, threatened litigation or administrative action, including any litigation or action involving our officers, directors, or other key personnel, which has or is expected by our management to have a material effect upon our business, financial condition or operations.

### ITEM 4 NOT APPLICABLE

### PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been quoted on the OTC Bulletin Board since August 2002. Our symbol is "HTLJ". For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

|                                     | HIGH | LOW  |
|-------------------------------------|------|------|
| FISCAL YEAR ENDED DECEMBER 31, 2009 |      |      |
| First Quarter                       | 0.50 | 0.20 |
| Second Quarter                      | 0.56 | 0.28 |
| Third Quarter                       | 1.16 | 0.30 |
| Fourth Quarter                      | 1.02 | 0.30 |
| FISCAL YEAR ENDED DECEMBER 31, 2008 |      |      |
| First Quarter                       | 0.80 | 0.28 |
| Second Quarter                      | 0.74 | 0.24 |
| Third Quarter                       | 0.80 | 0.30 |
| Fourth Quarter                      | 0.86 | 0.30 |

#### Holder of Shares of Common Stock

The Company has authorized 100,000,000 shares of common stock with a par value of \$.001 per share. As of December 31, 2009, the Company had 21,953,590 shares of common stock authorized to be issued and outstanding. As of February 14, 2008, there were approximately 689 stockholders of record of our common stock. This does not reflect those shares held beneficially or those shares held in "street" name.

We did not pay cash dividends in the past, nor do we expect to pay cash dividends for the foreseeable future. We anticipate that earnings, if any, will be retained for the development of our business.

As described in the Form 8-K filed with the SEC on December 23, 2009, the common shares were split 1:2 in a reverse stock split that became effective on January 19, 2010. This reverse stock split reduced the number of shares issued and outstanding by approximately 22 million shares. This reverse stock split had no effect on the shares authorized. As of March 25, 2010, there were 21,953,590 shares of Common Stock outstanding.

#### Preferred Stock

The Company has 5,000,000 shares of preferred stock authorized with a par value of \$.001. As of December 31, 2009, the Company has 2,370,000 shares of Series A Convertible Preferred Stock issued and outstanding. The preferred stock has a face value of \$0.25 per share and the basis of conversion is one share of the Company's common stock for each share of preferred stock. The preferred stock has liquidation priority rights over all other stockholders. The preferred shares can be converted at any time at the option of the stockholder, but will convert automatically at the end of three years into the Company's common stock.

Beginning in the first quarter of 2010 and continuing through the second quarter of 2010, all the preferred shares will be converted into common shares through the automatic conversion feature as stated above. The actual conversion should be approximately 610,000 shares of preferred shares being converted in the first quarter with the remainder being converted in the second quarter.

#### Warrants

The preferred shares include a Series A and Series B common stock purchase warrant. The Series A warrant allows the holder to purchase 20% of the number of preferred shares purchased at \$0.75 per share; the Series B warrant allows the holder to purchase 20% of the number of preferred shares purchased at \$1.00 per share. Both series of warrants are exercisable over a three year period. The Company can call in the warrants after 12 months if the price of the common stock in the market is 150% of the warrant price for 10 consecutive days. The company had 2,370,000 shares of Series A Convertible Preferred Stock issued and outstanding as of December 31, 2008 and 2009.

All Series A and Series B unexercised warrants associated with the preferred shares shall be eliminated with the conversion of the preferred shares into common shares as described above.

#### Transfer Agent

The Company's transfer agent and registrar of the common stock is Securities Transfer Corporation, 2591 Dallas Parkway, Suite 102, Frisco, Texas 75034.

#### Options



The Company has two employee non-statutory stock option agreements. As detailed in Form 8-K filed on June 28, 2007, option one was granted with Board approval to Terry L. Lee and contains the option to purchase 911,252 shares of common stock at an exercise price of \$0.66 over a pro-rata four year basis. All shares issued under this option would be restricted and any portion of the option not exercised by June 26, 2024 will expire.

The second employee non-statutory stock option agreement was granted with Board approval to Randy Frevert and contains the option to purchase 250,000 shares of common stock at an exercise price of \$1.00 over a pro-rata five year basis. All shares issued under this option would be restricted and any portion of the option not exercised by December 31, 2013 will expire.

As of January 19, 2010, these two options have been adjusted to reflect the one for two reverse stock split that went into effect on that date. Both the number of shares made available under the option and exercise price have been adjusted to reflect the reverse split with both options having the number of shares available cut in half and option price doubled.

### Penny Stock Considerations

Because our shares trade at less than \$5.00 per share, they are “penny stocks” as that term is generally defined in the Securities Exchange Act of 1934 to mean equity securities with a price of less than \$5.00. Our shares thus will be subject to rules that impose sales practice and disclosure requirements on broker-dealers who engage in certain transactions involving a penny stock.

Under the penny stock regulations, a broker-dealer selling a penny stock to anyone other than an established customer or accredited investor must make a special suitability determination regarding the purchaser and must receive the purchaser’s written consent to the transaction prior to the sale, unless the broker-dealer is otherwise exempt. Generally, an individual with a net worth in excess of \$1,000,000 or annual income exceeding \$100,000 individually or \$300,000 together with his or her spouse is considered an accredited investor. In addition, under the penny stock regulations the broker-dealer is required to:

- Deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt;
- Disclose commissions payable to the broker-dealer and our registered representatives and current bid and offer quotations for the securities;
- Send monthly statements disclosing recent price information pertaining to the penny stock held in a customer’s account, the account’s value and information regarding the limited market in penny stocks; and
- Make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction, prior to conducting any penny stock transaction in the customer’s account.

Because of these regulations, broker-dealers may encounter difficulties in their attempt to sell shares of our common stock, which may affect the ability of selling shareholders or other holders to sell their shares in the secondary market and have the effect of reducing the level of trading activity in the secondary market. These additional sales practice and disclosure requirements could impede the sale of our securities, if our securities become publicly traded. In addition, the liquidity for our securities may be decreased, with a corresponding decrease in the price of our securities. Our shares in all probability will be subject to such penny stock rules and our shareholders will, in all likelihood, find it difficult to sell their securities.

### Dividends

We do not anticipate paying dividends on any common shares of stock in the foreseeable future. We plan to retain any future earnings for use in our business. Any decisions as to future payments of dividends will depend on our earnings and financial position and such other facts as the Board of Directors deems relevant. The outstanding preferred shares of stock do carry an annual 10% stock dividend until converted at the option of the stockholder or automatically after three years from the date of purchase. All stock dividends through December 31, 2009 have been paid.

### Recent Sales of Unregistered Securities

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During the year ended December 31, 2009, the Company authorized total issuances of 573,783 shares of common stock. The issuances related to the following:

| Description                           | Quantity | Stock Price                    |
|---------------------------------------|----------|--------------------------------|
| Stock Dividends                       | 14,189   | Average Stock Price - 2008 (1) |
| Stock Dividends                       | 123,359  | Average Stock Price - 2009 (2) |
| Conversion of Debt & Related Interest | 16,205   | Conversion Rate \$1.00 (3)     |
| Board Compensation                    | 239,079  | Quarterly Closing Price (4)    |
| CEO Compensation                      | 166,528  | Average Stock Price - 2009 (2) |
| Board Approved Issuance               | 14,423   | \$0.26(5)                      |
|                                       | 573,783  |                                |

- (1) Average monthly closing price for Jan - Nov 2008 and Dec 15, 2008
- (2) Average monthly closing price for Jan - Nov 2009 and Dec 15, 2009
- (3) Set in convertible notes
- (4) Closing price on the 15th of the third month of each quarter.
- (5) Issuance of stock for equipment valued at \$7,500 on December 14, 2009

We relied upon Section 4(2) of the Securities Act of 1933, as amended for the above issuances. We believed that Section 4(2) was available because:

- None of these issuances involved underwriters, underwriting discounts or commissions;
  - We placed restrictive legends on all certificates issued;
  - No sales were made by general solicitation or advertising;
- Sales were made only to accredited investors or investors who were sophisticated enough to evaluate the risks of the investment.

#### Issuer Purchases of Equity Securities

The Company did not repurchase any of its securities during the year ended December 31, 2009.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements for the year ended December 31, 2009 included with this Form 10-K. 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 year ended December 31, 2009. 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" or "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 – Steel Distribution – Primarily focused on the wholesale distribution of steel products to steel fabricators and contractors.

Our Board of Directors and CEO have developed a plan of action that we believe will allow us to concentrate on running the business in a manner that promotes the long term growth and expansion of the business rather than attempting to grow only the top line number. The simple fact that petroleum and steel prices can fluctuate greatly in a very short period of time forces us to overlook fluctuations in dollar sales from period to period in favor of the actual units being sold and reducing the costs associated with the units actually being sold. We believe the evidence of our commitment to this plan of action is represented in the accompanying financial reports.

## Recent Developments

On June 3, 2009, the Company purchased a piece of property located at 3259 Highway 25E in Tazewell, TN for the gross selling price of \$888,856. The location was a former convenience store known as Get-It-Go Chevron and competed against one of our sites across the road. With this purchase, we were able not only to move our old site into a larger and more modern facility, but also eliminate one of the competitors at the same time. The purchase was funded primarily by a loan in the amount of \$626,384 through Commercial Bank of Harrogate, TN. The Company's CEO is also the CEO of Commercial Bank.

On December 8, 2009, the Company converted a construction loan in the amount of \$2,400,000 used to build the new warehouse and office for Heartland Steel into a regular twenty year installment loan. Interest on the construction loan was capitalized and interest from the conversion date forward will be expensed. The new warehouse and adjoining office is located at 1629 Old US 35 SE, Washington Court House, OH. Total cost allocated to the building was \$2,014,229 with the cost allocated to the lot being \$441,248. The loan was provided through Commercial Bank of Harrogate, TN. The Company's CEO is also the CEO of Commercial Bank.

## Critical Accounting Policies

Our consolidated financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States ("GAAP"). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenues, and expenses being reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note B of our consolidated financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our consolidated financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

## Revenue Recognition

### Mound

Mound recognizes revenues from fixed-price and modified fixed-price construction contracts on the percentage-of-completion method, measured by the percentage of total cost incurred to date to estimated total cost for each contract.

### Lee Oil and Heartland Steel

Lee Oil and Heartland Steel recognize revenue at the point of sale or upon delivery of the petroleum or steel products being sold.

Environmental Matters

All operations are subject to a broad range of laws and regulations relating to the protection of human health and the environment. We expect 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 Comprehensive Environmental Response, Compensation and Liability Act, 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 our financial position or on our competitive position with respect to other similarly situated competitors being subject to the same environmental requirements.

### Tax Loss Carryforward

Because of our tax operating losses in 2004, 2005, 2006, and 2007, we have accumulated a net operating loss carry-forward (“NOL”) for federal income tax purposes that, at December 31, 2009, was approximately \$2,700,000. Since United States tax laws limit the time during which an NOL may be applied against future taxable income and tax liabilities, we may not be able to take full advantage of our NOL carry-forward for federal income tax purposes. The carry-forward will expire during the period 2024 through 2027 if not otherwise used. A change in ownership, as defined by federal income tax regulations, could significantly limit the company’s ability to utilize its carry-forward. If we achieve sustained profitability, which may not occur, the use of net operating loss carry-forwards would reduce our tax liability and available cash resources. When all NOLs have been used or have expired, we would again be subject to increased tax expense.

### Deferred Tax Assets

In assessing the ability of the Company to realize the benefit of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management’s evaluation of the ability of the Company to realize the benefit of the deferred tax assets must consider both positive and negative evidence. The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. During the fourth quarter of 2008, we reversed the valuation allowance related to the NOLs and other temporary items totaling approximately \$1,806,000 as we determined it was more likely than not that we would be able to use the assets to reduce future tax liabilities. The reversal resulted in recognition of an income tax benefit.

### Vendor Incentive Recognition

Lee Oil participates in multiple vendor incentive programs through our three primary branded suppliers of BP Oil Products (“BP”), Marathon Petroleum Company (“Marathon”) and ExxonMobil Corporation (“Exxon”). These incentives usually consist of upgrading certain equipment or re-imaging sites to meet new standards put forth by the suppliers. As this equipment is received or the improvements made to the sites, we may receive funds in advance, be reimbursed for monies already paid, or actually receive upgraded equipment directly from the supplier. These programs usually require repayment if a particular site fails to meet certain expectations and standards or if the site is debranded within a given period of time (usually 5-10 years). The amounts earned or received under these programs are accrued when they are received or deemed probable and can be reasonably measured. We recognize the full liability of these advance payments on the books at the time of the advancement and ratably remove them over the remaining time period covered in the programs. At December 31, 2009, we have a recognized liability of \$793,594 with an estimated current liability amount of \$161,387.

Failure to achieve requirements set forth by the vendors could result in the debranding of a particular site and the requirement of having to repay any incentives previously advanced on that site. In addition to the debranding of particular sites, failure to meet contracted volume due to decreased volume if a particular site is debranded could result in the cancellation of the actual supplier contracts. We do not believe any of these incentive programs are individually material and deem the likelihood of having a supplier contract cancelled for failure to meet volume requirements to be unlikely. The reduction to the liability account is recorded as other income since the reduction is related more to a length of time having expired rather than directly with any product being sold.

### Results of Operations



### Significant Changes

The most significant change with respect to operations would be the acquisition of Lee Oil as of October 1, 2008. As a result of this acquisition, the company is filing a consolidated set of financials to include Lee Oil's results of operations for the fourth quarter of 2008 and all of 2009 as well as the associated assets and liabilities as of December 31, 2008 and 2009. Comparisons of operational data between 2008 and 2009 must be viewed with the knowledge of knowing the Lee Oil operational information for 2008 only included the fourth quarter.

Another significant change would be the commencement of full time operations in the fourth quarter of 2009 for Heartland Steel. This segment of the business was actually operational prior to the fourth quarter, but only had full capacities starting in November.

Revenues. Revenues increased for the year ended December 31, 2009 to \$92,151,381 from \$39,539,323 for the year ended December 31, 2008 primarily as a result of the Lee Oil acquisition. Revenues, after removing intercompany sales, for Lee Oil and Heartland Steel for the year ended December 31, 2009 were \$78,116,113 and \$1,294,253 respectively. The revenues reported for 2008 were \$20,417,082 for Lee Oil and \$0 for Heartland Steel.

Cost of Goods Sold. Cost of Goods Sold increased for the year ended December 31, 2009 to \$81,871,293 from \$34,432,778 for the year ended December 31, 2008 primarily as a result of the Lee Oil acquisition. Cost of Goods Sold, after removal of intercompany sales, for Lee Oil and Heartland Steel for the year ended December 31, 2009 were \$70,098,248 and \$1,071,810 respectively. The Cost of Goods Sold reported for 2008 were \$18,206,912 for Lee Oil and \$0 for Heartland Steel.

Income (Loss) From Continuing Operations. Income (Loss) before Income Taxes decreased for the year ended December 31, 2009 to a loss of \$31,864 from a profit of \$1,278,499 for the year ended December 31, 2008. This is primarily due to the interest expense related to the Lee Oil acquisition as well as the additional depreciation expense recorded in 2009. For the year ended December 31, 2009, interest expense was recorded at \$909,742 and depreciation was recorded in the amount of \$1,278,784.

Income Taxes. The most notable change other than the Lee Oil acquisition was the removal of the valuation allowance of \$1,806,400 in 2008.

See Note I of the financial statements for more information regarding income taxes.

Corporate Overhead. Corporate expenses remained approximately \$1,000,000 for the year ended December 31, 2009. This was in-line with the corporate expenses recorded in 2008.

## Liquidity and Capital Resources

### Sources of Liquidity

As of December 31, 2009, the Company had working capital of \$6,468,884. The Company used cash in operating activities of \$863,404 for the year December 31, 2009 relating primarily to the increase in accounts receivable and inventory. The timing of our collection of accounts receivable and payments of our accounts payable is one of the principal influences on our cash flow from operations. We typically sell our products and services on short-term credit terms. We try to minimize our credit risk by performing credit checks, obtaining letters of credit in certain instances, and conducting our own collection efforts. Our accounts receivable, net of allowance for doubtful accounts, was \$5,787,871 and \$4,885,878 at December 31, 2009 and 2008, respectively.

The Company used \$4,034,985 in cash for investing activities for the year ended December 31, 2009. The use of these funds was primarily attributable to the construction of the new warehouse for Heartland Steel and the purchase of the property in Tazewell, TN.

The Company generated \$3,201,607 in cash from financing activities for the period ended December 31, 2009 primarily through new borrowings.

Our principal sources of liquidity would be the cash available and collections from our accounts receivables. As of December 31, 2009 these two items totaled approximately \$8.2 million and all current assets compared to our current

liabilities puts our current ratio at approximately 2:1. We believe this is sufficient to meet our short-term liquidity requirements. 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.

As of December 31, 2009, 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.

One of the Company's sources of financing is Commercial Bank of Harrogate, TN. Terry Lee, the Company's CEO, is also the CEO of Commercial Bank. Related party transactions with Commercial Bank are pointed out in NOTE F of the financial statements.

#### Trends

Management is not aware of any trends or uncertainties that could have a material effect on the Company's ability to meet future obligations other than the price of the commodities themselves. Steel and petroleum products have both moved dramatically in price over the year and we see this trend continuing into the future. Since our competitors would be faced with these same fluctuations in price, we do not see it having a material effect on our ability to continue operations and meet future obligations.

#### Subsequent Events

On January 11, 2010, the Company filed Form 8-K with the SEC relating to the resignation of Dr. K. Barton Farris from the Board of Directors. Dr. Farris resigned as director to pursue other interests. Trent Sommerville, a director of the Company, will take Dr. Farris's position as head of the audit committee until a replacement is nominated to fill the vacancy.

On January 19, 2010, the Company's common shares were split two for one in a reverse stock split in the Form 8-K filed with the SEC on December 23, 2009. As of February 14, 2010 the transfer agent had notified us of the reduction of 21,953,022 shares of issued and outstanding shares due to this stock split. No fractional shares were issued. This stock split had no effect on the number of shares authorized.

#### Off-Balance Sheet Arrangements

At December 31, 2009, the Company did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition.

ITEM 8. FINANCIAL STATEMENTS

HEARTLAND, INC. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2009 and 2008

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Heartland, Inc.

We have audited the accompanying consolidated balance sheets of Heartland, Inc. and Subsidiaries (the Company) as of December 31, 2009 and 2008 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Heartland, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Coulter & Justus, P.C.

Knoxville, TN  
March 31, 2010

## HEARTLAND, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

## ASSETS

|   | December<br>31,<br>2009 | 2008                |
|---|-------------------------|---------------------|
| <b>CURRENT ASSETS</b>   |                         |                     |
| Cash  | \$2,404,910             | \$4,101,692         |
| Accounts receivable, net  | 5,787,871               | 4,885,878           |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 166,884                 | 138,892             |
| Inventory   | 4,132,358               | 2,775,635           |
| Prepaid expenses and other  | 1,000                   | -                   |
| Deferred income taxes   | 252,409                 | 678,774             |
| <b>Total current assets</b>   | <b>12,745,432</b>       | <b>12,580,871</b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                         |                     |
| Land  | 2,716,217               | 2,514,002           |
| Buildings and improvements  | 7,155,712               | 4,609,621           |
| Plant equipment   | 873,436                 | 829,579             |
| Equipment   | 3,197,846               | 2,139,845           |
| Equipment at customers' location  | 1,017,380               | 810,226             |
| Office equipment  | 225,678                 | 193,798             |
| <b>Total property, plant and equipment</b>                                  | <b>15,186,269</b>       | <b>11,097,071</b>   |
| Less: Accumulated depreciation  | (1,983,942 )            | (840,837 )          |
| <b>Net property, plant and equipment</b>                                    | <b>13,202,327</b>       | <b>10,256,234</b>   |
| <b>OTHER ASSETS</b>   |                         |                     |
| Deferred income taxes   | 242,864                 | -                   |
| Other assets  | 68,428                  | 68,112              |
| <b>Total other assets</b>   | <b>311,292</b>          | <b>68,112</b>       |
| <b>Total assets</b>   | <b>\$26,259,051</b>     | <b>\$22,905,217</b> |

See accompanying notes to consolidated financial statements.



HEARTLAND, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

|  | December<br>31,<br>2009 | 2008                |
|--|-------------------------|---------------------|
| <b>LIABILITIES</b>   |                         |                     |
| Accounts payable   | \$3,506,792             | \$2,741,435         |
| Accrued expenses   | 313,367                 | 647,879             |
| Lines of credit  | 1,175,000               | 475,000             |
| Current portion of notes payable   | 799,190                 | 730,594             |
| Current portion of notes payable to related parties  | 118,869                 | 129,127             |
| Current portion of unearned supplier incentives  | 161,387                 | 102,989             |
| Billings in excess of costs and estimated earnings on uncompleted contracts  | 201,943                 | 493,302             |
| <b>Total current liabilities</b>   | <b>6,276,548</b>        | <b>5,320,326</b>    |
| Notes payable, less current portion  | 10,759,941              | 8,204,783           |
| Notes payable to related parties, less current portion   | 3,208,983               | 3,330,872           |
| Unearned supplier incentives, less current portion   | 632,207                 | 699,393             |
| Deferred income taxes  | -                       | 178,822             |
| <b>Total liabilities</b>   | <b>20,877,679</b>       | <b>17,734,196</b>   |
| <b>STOCKHOLDERS' EQUITY</b>  |                         |                     |
| Preferred stock \$0.001 par value 5,000,000 shares<br>authorized, 2,370,000 shares issued and outstanding  | 2,370                   | 2,370               |
| Additional paid-in capital – preferred stock   | 713,567                 | 713,567             |
| Common stock, \$0.001 par value 100,000,000 shares<br>authorized; 21,953,306 and 21,379,523 shares issued and<br>outstanding at December 31, 2009 and 2008, respectively | 21,953                  | 21,380              |
| Additional paid-in capital – common stock  | 17,439,553              | 17,033,105          |
| Accumulated deficit  | (12,796,071)            | (12,599,401)        |
| <b>Net stockholders' equity</b>  | <b>5,381,372</b>        | <b>5,171,021</b>    |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b>\$26,259,051</b>     | <b>\$22,905,217</b> |

See accompanying notes to consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Year Ended<br>December 31, |                    |
|---|----------------------------|--------------------|
|   | 2009                       | 2008               |
| REVENUE - SALES   | \$91,094,672               | \$39,261,733       |
| REVENUE - SALES TO RELATED PARTIES                        | 1,056,709                  | 277,590            |
| Cost of goods sold  | (81,871,293)               | (34,432,778)       |
| Gross Profit  | 10,280,088                 | 5,106,545          |
| <b>EXPENSES</b>   |                            |                    |
| Selling, general and administrative expenses              | 8,660,504                  | 3,533,311          |
| Depreciation and amortization                             | 1,278,784                  | 338,805            |
| Total Expenses  | 9,939,288                  | 3,872,116          |
| <b>NET OPERATING INCOME</b>                               | <b>340,800</b>             | <b>1,234,429</b>   |
| <b>OTHER INCOME (EXPENSE)</b>                             |                            |                    |
| Other income  | 347,186                    | 224,445            |
| Gain on disposal of property, plant and equipment         | 189,892                    | 744                |
| Interest expense  | (495,146 )                 | (50,806 )          |
| Interest expense to related parties                       | (414,596 )                 | (130,313 )         |
| Net Other (Expense) Income                                | (372,664 )                 | 44,070             |
| <b>(LOSS) INCOME BEFORE INCOME TAXES</b>                  | <b>(31,864 )</b>           | <b>1,278,499</b>   |
| <b>INCOME TAXES</b>                                       |                            |                    |
| Federal income tax (expense) benefit, deferred            | (18,320 )                  | 1,332,469          |
| State income tax expense, current                         | (93,404 )                  | (137,655 )         |
| State income tax benefit (expense), deferred              | 13,641                     | (16,952 )          |
| <b>NET (LOSS) INCOME</b>                                  | <b>(129,947 )</b>          | <b>2,456,361</b>   |
| LESS: Preferred Dividends                                 | (59,250 )                  | (104,626 )         |
| <b>NET (LOSS) INCOME AVAILABLE TO COMMON STOCKHOLDERS</b> | <b>\$(189,197 )</b>        | <b>\$2,351,735</b> |
| <b>Net (Loss) Income per Share:</b>                       |                            |                    |
| Basic and Diluted   | \$(0.00 )                  | \$0.12             |
| <b>Weighted Average Shares Outstanding:</b>               |                            |                    |
| Basic and Diluted   | 22,256,016                 | 20,181,559         |

See accompanying notes to consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended<br>December 31, |                    |
|---|----------------------------|--------------------|
|   | 2009                       | 2008               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                            |                    |
| Net (loss) income   | \$(129,947 )               | \$2,456,361        |
| Adjustments to reconcile net (loss) income to cash flows (used in) provided by operating activities |                            |                    |
| Stock issued for services and settlement  | 39,990                     | 120,000            |
| Gain on disposal of property, plant and equipment   | (189,892 )                 | (744 )             |
| Depreciation and amortization   | 1,278,784                  | 317,879            |
| Share-based compensation  | 300,308                    | 327,505            |
| Deferred income taxes   | 4,679                      | (1,315,517)        |
| Changes in assets and liabilities   |                            |                    |
| Accounts receivable   | (901,993 )                 | 2,518,593          |
| Costs in excess of billings on uncompleted contracts  | (27,992 )                  | 173,007            |
| Inventory   | (1,356,723)                | 158,792            |
| Prepays and other   | (1,000 )                   | 3,347              |
| Accounts payable  | 765,357                    | (1,955,487)        |
| Accrued expenses  | (344,512 )                 | (515,183 )         |
| Other assets  | (316 )                     | -                  |
| Billings in excess of costs on uncompleted contracts  | (291,359 )                 | 297,870            |
| <b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>  | <b>(854,616 )</b>          | <b>2,586,423</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                            |                    |
| Investment in Lee Oil, net of cash acquired   | -                          | (1,150,313)        |
| Proceeds from disposition of property, plant, and equipment   | 260,000                    | 744                |
| Net payments for property, plant and equipment  | (4,294,985)                | (1,342,480)        |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <b>(4,034,985)</b>         | <b>(2,492,049)</b> |

See accompanying notes to consolidated financial statements.

HEARTLAND, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Year Ended<br>December 31, |                    |
|--|----------------------------|--------------------|
|  | 2009                       | 2008               |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                      |                            |                    |
| Amortization of unearned supplier incentives                                     | \$(8,788 )                 | \$20,485           |
| Proceeds from notes payable  | 5,437,939                  | 3,887,476          |
| Payments on notes payable  | (2,090,668 )               | (790,805 )         |
| Proceeds from related party notes payable  | -                          | 900,000            |
| Payments on related party notes payable  | (132,149 )                 | (295,605 )         |
| Payments on capital lease  | (13,515 )                  | (34,891 )          |
| Proceeds from issuance of common stock   | -                          | 104,088            |
| <b>NET CASH PROVIDED BY FINANING ACTIVITIES</b>                                  | <b>3,192,819</b>           | <b>3,790,748</b>   |
| <b>(DECREASE) INCREASE IN CASH</b>   | <b>(1,696,782 )</b>        | <b>3,885,122</b>   |
| <b>CASH, BEGINNING OF PERIOD</b>   | <b>4,101,692</b>           | <b>216,570</b>     |
| <b>CASH, END OF PERIOD</b>   | <b>\$2,404,910</b>         | <b>\$4,101,692</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                         |                            |                    |
| Interest paid  | \$495,146                  | \$50,306           |
| Interest paid on related party notes payable                                     | \$414,596                  | \$130,313          |
| Taxes paid   | \$91,153                   | \$137,655          |
| <b>NON CASH INVESTING AND FINANCING ACTIVITIES</b>                               |                            |                    |
| Amortization of deferred compensation as share based compensation                | \$100,308                  | \$86,928           |
| Issuance of common stock in payment of convertible promissory notes and interest | \$39,990                   | \$128,754          |
| Issuance of common stock for services and settlement                             | \$199,999                  | \$240,668          |
| Issuance of common stock for dividends   | \$66,723                   | \$97,154           |
| Purchase of Springboro property by net settlement due to/from landlord           |                            |                    |
| Settlement of amount due from landlord   | \$-                        | \$426,321          |
| Settlement of amount due to landlord   | \$-                        | \$284,664          |
| Issuance of common stock relating to acquisition of Lee Oil                      | \$-                        | \$500,000          |
| Issuance of related party debt related to acquisition of Lee Oil                 | \$-                        | \$3,250,000        |

See accompanying notes to consolidated financial statements.



HEARTLAND & SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
For the Years Ended December 31, 2009 and 2008

|                                    | Preferred Stock<br>Shares | Preferred Stock<br>Amount | Additional<br>Paid-In<br>Capital | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Stockholders'<br>Equity |
|------------------------------------|---------------------------|---------------------------|----------------------------------|------------------------|------------------------|----------------------------------|------------------------|-------------------------|
| Balance at<br>January 1, 2008      | 2,370,000                 | \$2,370                   | \$713,567                        | 18,283,552             | \$18,283               | \$15,808,073                     | \$(14,958,608)         | \$1,583,685             |
| Common<br>Stock Issued             | -                         | -                         | -                                | 2,443,074              | 2,443                  | 800,937                          | -                      | 803,380                 |
| Preferred<br>Stock<br>Dividends    | -                         | -                         | -                                | 185,547                | 186                    | 96,968                           | (97,154 )              | -                       |
| Share Based<br>Compensation        | -                         | -                         | -                                | 467,350                | 468                    | 327,127                          | -                      | 327,595                 |
| Net Income                         | -                         | -                         | -                                | -                      | -                      | -                                | 2,456,361              | 2,456,361               |
| Balance at<br>December 31,<br>2008 | 2,370,000                 | \$2,370                   | \$713,567                        | 21,379,523             | \$21,380               | \$17,033,105                     | \$(12,599,401)         | \$5,171,021             |
| Common<br>Stock Issued             | -                         | -                         | -                                | 30,628                 | 30                     | 39,960                           | -                      | 39,990                  |
| Preferred<br>Stock<br>Dividends    | -                         | -                         | -                                | 137,548                | 138                    | 66,585                           | (66,723 )              | -                       |
| Share Based<br>Compensation        | -                         | -                         | -                                | 405,607                | 405                    | 299,903                          | -                      | 300,308                 |
| Net Loss                           | -                         | -                         | -                                | -                      | -                      | -                                | (129,947 )             | (129,947 )              |
| Balance at<br>December 31,<br>2009 | 2,370,000                 | \$2,370                   | \$713,567                        | 21,953,306             | \$21,953               | \$17,439,553                     | \$(12,796,071)         | \$5,381,372             |

See accompanying notes to consolidated financial statements.

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HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

NOTE A - PRINCIPLES OF CONSOLIDATION AND NATURE OF BUSINESS

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”), and Heartland Steel, Inc. (“HS”). Heartland and its subsidiaries are collectively referred to as the “Company”.

Mound is a regional fabricator of structural and miscellaneous steel, with most projects focused in the State of Ohio. Lee operates a wholesale oil distributorship and multiple retail convenient store locations for service within the tri-state area of Kentucky, Virginia, and Tennessee. HS is a steel distribution and service center that just began full-time operations from the newly constructed office and warehouse located in Washington Court House, OH.

All significant intercompany accounts and transactions have been eliminated.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash

At December 31, 2009, the Company had approximately \$1,350,000 on deposit with banks in excess of federally insured limits and not otherwise collateralized. Credit risk is subject to the financial strength of these financial institutions.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the amount the Company expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off all balances that are deemed to be uncollectible. Any account that falls outside of the credit terms specified for that account is subject to a finance charge being placed on the account at the end of each month. This process continues until such time as the account is paid or the amount is written off. The Company generally does not require collateral on accounts receivable except in high risk customers.

Estimates are used in determining the allowance for doubtful accounts and are based on historical collection experience and current trends. Management periodically evaluates the standard allowance estimation methodology for appropriateness and modifies as necessary. Write off of accounts typically occurs once we have exhausted all efforts to collect the account, which include collection attempts by our employees and outside collection agencies.

For the periods ending December 31, 2009 and 2008, we have estimated the allowance for bad debts to be \$115,724 and \$185,428, respectively. Two customers comprised 12% and 9% of accounts receivable at December 31, 2009. Accounts receivable at December 31, 2008 also included two customers comprising 18% and 12% of the balance.

All sales taxes collected are netted against sales and accrued as a liability.

Inventory

All inventory is carried at the lower of cost or market. Inventory cost for Mound is determined on the First-In, First-Out (FIFO) method. Lee has three classes of inventory: wholesale oil, retail oil, and groceries. Wholesale oil cost is determined using the average cost method, retail oil cost is determined using the FIFO method, and grocery cost is



determined using the retail inventory cost method. HS uses the FIFO method.

Property, Plant, and Equipment

Property, plant, and equipment is stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of property and equipment is provided using the straight-line method at rates based on the following estimated useful lives:

|                             | Years   |
|-----------------------------|---------|
| Equipment                   | 3 - 10  |
| Buildings &<br>Improvements | 15 - 40 |

HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Mound

Mound recognizes revenues from fixed-price and modified fixed-price construction contracts on the percentage-of-completion method, measured by the percentage of total cost incurred to date to estimated total cost for each contract.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Lee Oil

Lee Oil recognizes revenue at the point of sale or upon delivery of the petroleum products sold.

HS

Heartland Steel recognizes revenue at the point of sale or upon delivery of the steel products sold.

Unearned Supplier Incentives

Lee Oil participates in multiple vendor incentive programs through three primary branded petroleum product suppliers, BP Oil Products ("BP"), Marathon Petroleum Company ("Marathon") and ExxonMobil Corporation ("Exxon"). These incentives usually consist of upgrading certain equipment or re-imaging sites to meet new standards put forth by the suppliers. As this equipment is received or the improvements made to the sites, we may receive funds in advance, be reimbursed for monies already paid, or actually receive upgraded equipment directly from the supplier. These programs usually require repayment if a particular site fails to meet certain expectations and standards or if the site is debranded within a given period of time (usually 5-10 years).

We recognize a liability of these advance payments at the time of the advancement and ratably remove them over the remaining time period covered in the programs. At December 31, 2009, we have a recognized liability of \$793,594 with an estimated current amount of \$161,387.

Failure to achieve requirements set forth by the vendors could result in the debranding of a particular site and the requirement of having to repay any incentives previously advanced on that site. In addition to the debranding of particular sites, failure to meet contracted volume due to decreased volume if a particular site is debranded could result in the default of the supplier contracts. The reduction to the liability account is recorded as other income since the reduction is not related to the sale of the products.

#### Earnings Per Share

Basic earnings (loss) 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 (loss) 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.

HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reverse Stock Split

Effective January 19, 2010, the Company executed a 1:2 reverse stock split on the common shares issued and outstanding. This transaction has been retroactively applied to the 2008 and 2009 amounts throughout the financial statements including all option and warrant agreements outstanding and EPS calculations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Share-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards.

The Company accounts for stock issued for services using the fair value method. The measurement date of shares issued for service is the date at which the counterparty's performance is complete.

Fair Values of Financial Instruments

The Company uses financial instruments in the normal course of business. The carrying values of cash, accounts receivable, inventory, prepaid expenses, bank lines of credit, accounts payable, accrued payroll taxes and other expenses, customer deposits, and unearned supplier incentives approximate their fair value due to the short-term maturities of these assets and liabilities. The carrying value of notes payable is estimated by management based on discounted cash flow analyses and approximates fair value.

Income Taxes

Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates on the date of enactment.

The Company files Federal and state income tax returns. The Company's major tax jurisdictions in which it files income tax returns include Federal (United States of America), the State of Ohio, the State of Tennessee, the Commonwealth of Kentucky and the Commonwealth of Virginia. All tax years remain subject to examination by these major tax jurisdictions. The Company's policy is to classify penalties and interest associated with uncertain tax positions, if any, as a component of its income tax provision.

Shipping and Handling Costs

The Company includes shipping and handling costs associated with inventory purchases in cost of goods sold. Shipping and handling costs associated with inventory sales are included in selling, general and administrative expenses.

#### Environmental Remediation Costs

Petroleum storage tanks at the Company's owned and leased facilities are routinely evaluated and inspected for potential leaks as part of the Company's ongoing monitoring of risks associated with exposure to environmental remediation costs. In addition, by paying annual fees in Tennessee and Kentucky and by complying with Tennessee, Kentucky and Virginia state regulations governing the storage tanks, the Company is able to take advantage of liability limits, provided in the applicable state regulations, for costs of clean-up in the event of a storage tank leak. Management has concluded that the risk of incurring material costs associated with clean-up of a storage tank leak is remote and, as such, no amounts have been accrued in the 2009 or 2008 balance sheets related to environmental remediation liabilities.

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HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## Reclassification

Certain amounts in the 2008 Financial Statements have been reclassified to conform to the presentation used in the 2009 Financial Statements.

## NOTE C – INVENTORIES

Inventory at December 31 consisted of the following:

|                | 2009         | 2008         |
|----------------|--------------|--------------|
| Mound          | \$ 1,202,409 | \$ 1,117,102 |
| Lee:           |              |              |
| Wholesale Fuel | 530,794      | 461,887      |
| Retail Fuel    | 674,232      | 404,351      |
| Groceries      | 918,983      | 792,295      |
| HS             | 805,940      | -            |
|                | \$ 4,132,358 | \$ 2,775,635 |

## NOTE D – FIXED ASSET ACQUISITIONS

The Company completed construction of a 59,000 square foot warehouse and office facility located on the property at 1629 Old US 35 SE in Washington Court House, OH 43160. Costs allocated to the building amounted to \$2,014,229. This amount along with the cost allocated to the property of \$441,248 was rolled into one installment loan through Commercial Bank of Harrogate, TN in the amount of \$2,400,000 with Company generated funds making up the difference. The note carries a twenty year amortization and is secured by the property. The interest rate is fixed over the first five years at seven percent (7.0%) and adjusts annually thereafter to Prime plus zero percent with five and one half percent being the floor. The current monthly payments for the first sixty months are estimated at \$16,635 per month. The Company's CEO is also the CEO of Commercial Bank.

On June 3, 2009, the Company purchased a piece of property located at 3259 Highway 25E in Tazewell, TN for the gross selling price of \$888,856. The location was a former convenience store known as Get-It-Go Chevron. The property consisted of (1) a lot approximately 1.3 acres in size, (2) a building approximately 4,700 square feet in size, and (3) various pieces of equipment primarily related to the convenience store business. The Company estimated the fair value of the various types of assets based on the gross selling price and allocated \$208,856 to land, \$564,000 to the building, and \$116,000 to equipment for this particular site. The purchase was funded primarily by a loan in the amount of \$626,384 through Commercial Bank of Harrogate, TN. The Company's CEO is also the CEO of Commercial Bank.

On June 3, 2009, the Company also sold a piece of property located at 3227 Highway 25E in Tazewell, TN for a gross selling price of \$260,000. The sale resulted in a capital gain being reported in the amount of \$189,892 since the majority of the assets related to this piece of property had been fully depreciated.

The convenience store operations from the 3227 Highway 25E location have been moved to the 3259 Highway 25E location. The transfer of operations took place shortly after the purchase of the new property with very little downtime. Rebranding of the site from a Chevron to a Marathon also took place during this transfer.

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HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

## NOTE E - BANK LINE OF CREDIT

Heartland has a \$1,200,000 line of credit with Citizens Bank of which \$25,000 of the amount was available at December 31, 2009. The line matures August 11, 2010, bears a current interest rate of 5.00% as of December 31, 2009 and is secured by the assets of Heartland. The line has an adjustable interest rate clause that is tied to changes in an independent index which is the Wall Street Prime as printed in the Wall Street Journal and can go no lower than 5.00% and no higher than 18.00%.

## NOTE F - NOTES PAYABLE

Notes payable consist of long term notes entered into with various financial institutions, related parties, or third parties for the purchase of property and equipment with a carrying value of \$13,202,327 at December 31, 2009. The assets purchased with these notes serve as collateral for the individual notes as well as substantially all other assets of the Company.

The following tables give the notes and terms along with maturities at December 31:

|                         | Expiration Date | Interest Rate | Include Interest | Monthly Payment | 2009         | 2008         |
|-------------------------|-----------------|---------------|------------------|-----------------|--------------|--------------|
| Bank Notes              |                 |               |                  |                 |              |              |
| Choice Financial        | 10/1/11         | 7.75 %        | Yes              | \$ 30,780       | \$ 3,100,486 | \$ 3,221,827 |
| Commercial Bank (1)     | 4/18/11         | 6.50 %        | Yes              | 508             | 7,735        | 13,131       |
| Commercial Bank (1)(10) | 6/27/28         | 6.00 %        | Yes              | 8,347           | 1,109,296    | 1,141,353    |
| Commercial Bank (1)     | 6/27/29         | 6.25 %        | Yes              | 4,612           | 616,792      | -            |
| Citizens Bank (6)       | 6/20/13         | 6.00 %        | Yes              | 5,825           | 219,575      | 274,334      |
| People's Community (2)  | 8/1/23          | 3.25 %        | Yes              | 6,100           | 821,918      | 867,227      |
| First Tennessee         | N/A             | 5.97 %        | Yes              | 14,470          | -            | 947,213      |



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|                           |         |      |   |     |        |               |              |
|---------------------------|---------|------|---|-----|--------|---------------|--------------|
| First Community (2)       | 8/7/14  | 6.25 | % | Yes | 6,964  | 793,553       | -            |
| Commercial Bank<br>(1)    | 4/18/13 | 7.50 | % | Yes | 7,250  | 861,538       | 887,474      |
| Commerical Bank<br>(1)    | 4/23/13 | 8.00 | % | Yes | 596    | 20,677        | -            |
| Commerical Bank<br>(1)    | 2/8/14  | 6.50 | % | Yes | 922    | 40,390        | -            |
| Commerical Bank<br>(1)    | 1/1/14  | 6.00 | % | Yes | 690    | 29,935        | -            |
| Commerical Bank<br>(1)(7) | 12/8/09 | 5.50 | % | Yes | 16,635 | 2,394,133     | -            |
|                           |         |      |   |     |        | \$ 10,016,028 | \$ 7,352,559 |

HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

## NOTE F - NOTES PAYABLE (Continued)

|                         | Expiration Date | Interest Rate |  | Include Interest | Monthly Payment | 2009         | 2008         |
|-------------------------|-----------------|---------------|--|------------------|-----------------|--------------|--------------|
| Lee Holding Company (3) | 10/1/28         | 8.00 %        |  | Yes              | 13,709          | \$ 1,582,391 | \$ 1,617,041 |
| Gary D. Lee (4)         | 10/1/28         | 8.00 %        |  | Yes              | 13,709          | 1,582,391    | 1,617,041    |
| Sam Mars (6)(8)         | 5/1/12          | 7.00 %        |  | Yes              | 1,904           | 50,651       | 69,236       |
| Sam Mars (6)(8)         | 6/25/18         | 7.00 %        |  | Yes              | 2,710           | 207,918      | 225,226      |
| Sam Mars (6)(8)         | 5/16/20         | 7.00 %        |  | Yes              | 2,794           | 246,319      | 261,766      |
| Mars Properties (6)     | 12/25/12        | 6.00 %        |  | Yes              | 6,821           | 224,212      | 290,443      |
| Shoemaker Dist          | 10/1/13         | 6.00 %        |  | Yes              | 6,083           | 241,206      | 297,886      |
| Petro Marketing (9)     | 9/30/15         | 4.50 %        |  | Yes              | 4,491           | 251,304      | 294,729      |
| Helen Miller (5)        | 4/15/13         | 0.00 %        |  | No               | 4,152           | 163,069      | 225,918      |
| State of Ohio           | 4/15/10         | 0.00 %        |  | No               | 9,569           | 28,706       | 143,531      |
| Sector Technologies     | 7/1/14          | 6.00 %        |  | Yes              | 3,694           | 225,214      | -            |
| US Financial Services   | 7/1/11          | 24.50 %       |  | Yes              | 1,196           | 18,185       | -            |
| Intech Funding Corp.    | 4/24/13         | 4.00 %        |  | Yes              | 1,098           | 40,361       | -            |
| Wells Fargo Financial   | 9/1/12          | 22.50 %       |  | Yes              | 387             | 9,028        | -            |
|                         |                 |               |  |                  |                 | \$ 4,870,955 | \$ 5,042,817 |

(1) Related Party - Terry Lee - CEO of Commercial Bank and CEO of the Company

- (2) Interest Rate is variable and is based on the prime lending rate.
- (3) Related Party – Terry Lee, Managing Partner of Lee Holding Company and CEO of the Company
- (4) Related Party – Gary Lee, Vice-President of Lee Oil and relative of Terry Lee, CEO of the Company
- (5) Related Party – Relative of Tom Miller, President of Mound
- (6) Notes are due upon demand. Per terms of each agreement, the date listed as expiration date corresponds to the stipulated amortization period with the notes. All lenders , except Citizens Bank, have waived their right to call the notes until January 1, 2011 and as such, these notes have been classified as long-term debt. Management has also classified the Citizens Bank note as long-term debt.
- (7) Interest is fixed until October 2014, then adjusts annually thereafter to the prime lending rate. The rate can not drop below 5.5%.
- (8) Interest rate is variable, computed as 2% below the prime lending rate. The rate can not drop below 7%.
- (9) Interest rate is variable, computed as 0.5% below the prime lending rate, adjusted annually.
- (10) Interest rate is fixed until June 2013 at which time the rate will become variable, computed at 6% above federal discount rate. The rate is adjusted annually after October 2014, can not exceed 15.5% and can not change by more than 2% annually.

HEARTLAND, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2009

## NOTE F - NOTES PAYABLE (Continued)

During 2009, the Company refinanced the First Tennessee note with a note issued through First Community Bank in the original amount of \$807,500. The outstanding balance on the First Tennessee note at December 31, 2008 was \$947,213.

At December 31, 2009, minimum future principal payments over the next five years and in the aggregate are as follows:

|                |            | Due In<br>2010 | 2011      | 2012    | 2013      | 2014    | Thereafter |
|----------------|------------|----------------|-----------|---------|-----------|---------|------------|
| Total Debt     | 14,886,983 | 918,059        | 3,727,662 | 774,654 | 1,377,315 | 470,841 | 7,618,452  |
| Less: Current  | (918,059 ) |                |           |         |           |         |            |
| Long-Term Debt | 13,968,924 |                |           |         |           |         |            |

## NOTE G – OTHER RELATED PARTY TRANSACTIONS

## Issuance of Stock to Related Parties

## 2009

Issued 166,528 common shares to Chief Executive Officer for salary valued at \$80,000.

Issued 239,079 common shares to Board Members for services rendered valued at \$120,000.

Issued 6,246 common shares to Dr. Kenneth Farris, a board member, for the preferred stock dividend earned for the year of 2009 valued at \$3,000.

## 2008

Issued 251,892 common shares to Chief Executive Officer for salary valued at \$120,667.

Issued 215,358 common shares to Board Members for services rendered valued at \$120,000.

Issued 625,000 common shares to Lee Holding Company for Lee Oil acquisition valued at \$250,000. Terry Lee is the managing partner of Lee Holding Company and CEO of the Company.

Issued 625,000 common shares to Gary Lee for the Lee Oil acquisition valued at \$250,000. Gary Lee is the vice-president of Lee Oil and relative of Terry Lee.

Issued 10,008 common shares to Dr. Kenneth Farris, a board member, for the preferred stock dividend earned for the years of 2007 and 2008 valued at \$5,242.

Other Transactions with Related Parties

During the year ended December 31, 2009, Lee Oil sold 587,250 gallons of diesel fuel to a mining company of which Terry Lee, the Company CEO, is a 33% owner. The total amount invoiced for these gallons sold was approximately \$1.1 million.

During the year ended December 31, 2009, Lee Oil leased a piece of property from L&M Ventures of which Terry Lee, the Company CEO, is a 50% owner. The lease payments totaled \$64,800 for the year.

HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

NOTE G – OTHER RELATED PARTY TRANSACTIONS (Continued)

Lee Holding Company of which Terry Lee, the Company CEO, is the managing partner, purchased a piece of property in June 2009 from D&B Properties, Inc. Lee Oil had been leasing the property from D&B Properties and continues to lease the property. The lease payments for the months of June through December totaled \$37,400.

During the year ended December 31, 2009, Heartland Steel completed construction of the warehouse and office facility located in Washington Court House, OH. The construction loan in the amount of \$2,400,000 was converted into a regular installment note through Commercial Bank of Harrogate, TN. Terry Lee, the Company's CEO, is also the CEO of Commercial Bank.

During the quarter ended December 31, 2008, Lee Oil sold 133,754 gallons of diesel fuel to a mining company of which Terry Lee, the Company CEO, is a 33% owner. The total amount invoiced for these gallons sold was \$277,590.

During the quarter ended December 31, 2008, Lee Oil leased a piece of property from L&M Ventures of which Terry Lee, the Company CEO, is a 50% owner. The lease payments made in the fourth quarter were \$16,200.

NOTE H - STOCKHOLDERS' EQUITY

Preferred Stock

In January 2007, the Board of Directors approved the authorization of 5,000,000 shares of Series A Convertible Preferred Stock - par value \$0.001. As of December 31, 2009 and 2008, the Company has 2,370,000 shares of Series A Convertible Preferred Stock issued and outstanding. The preferred stock has a face value of \$0.25 per share and the basis of conversion is one share of the Company's common stock for each share of preferred stock. The preferred stock has liquidation priority rights over all other stockholders. The preferred shares can be converted at any time at the option of the stockholder, but will convert automatically at the end of three years into the Company's common stock.

The preferred shares carry a 10% annual stock dividend for the three years they are outstanding prior to conversion. The stock dividends for 2008 and 2009 have been paid with the issuance of common shares of stock.

The preferred shares include a Series A and Series B common stock purchase warrant. The Series A warrant allows the holder to purchase 20% of the number of preferred shares purchased at \$0.75 per share; the Series B warrant allows the holder to purchase 20% of the number of preferred shares purchased at \$1.00 per share. Both series of warrants are exercisable over a three year period. The Company can call in the warrants after 12 months if the price of the common stock in the market is 150% of the warrant price for 10 consecutive days (i.e. \$1.13 for the A warrant and \$1.50 for the B warrant).

Included with the Series A Preferred were 474,000 Series A warrants and 474,000 Series B warrants. The Series A and Series B warrants were valued at \$123,347 using the Black-Scholes option-pricing model and such amount is included in Additional Paid in Capital – Preferred Stock. The assumptions used were as follows:

|                         |                   |
|-------------------------|-------------------|
| Expected Life           | 3 years           |
| Expected Volatility     | 109.80% - 111.84% |
| Risk Free Interest Rate | 2.5%              |
| Expected Dividends      | --                |

At December 31, 2008 and 2009, there were 474,000 Series A warrants and 474,000 Series B warrants outstanding.

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HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

## NOTE H - STOCKHOLDERS' EQUITY (Continued)

## Preferred Stock (Continued)

The Company recognized an imbedded beneficial conversion feature present in the Series A Convertible Preferred Stock. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of \$123,437 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid-in capital and as a dividend to the holders of the Series A Convertible Preferred Stock issued during the year ended December 31, 2007.

Beginning in the first quarter of 2010 and continuing through the second quarter of 2010, all the preferred shares will be converted into common shares through an automatic conversion feature. The actual conversion should be approximately 610,000 shares of preferred shares being converted in the first quarter with the remainder being converted in the second quarter.

All Series A and Series B unexercised warrants associated with the preferred shares shall be eliminated with the conversion of the preferred shares into common shares as described above.

## Common Stock

During the year ended December 31, 2009, the Company authorized total issuances of 1,323,783 shares of common stock of which 750,000 were cancelled during the fourth quarter. The issuances related to the following:

| Description                           | Quantity | Stock Price                          |
|---------------------------------------|----------|--------------------------------------|
| Stock Dividends                       | 14,189   | Average<br>Stock Price<br>(1)        |
| Stock Dividends                       | 123,359  | Average<br>Stock Price<br>(2)        |
| Conversion of Debt & Related Interest | 16,205   | Conversion<br>Rate \$1.00 (3)        |
| Board Compensation                    | 239,079  | Quarterly<br>Closing Price<br>(4)    |
| CEO Compensation                      | 166,528  | Average<br>Stock Price -<br>2009 (2) |
| Board Approved Issuance               | 14,423   | \$0.26(5)                            |
|                                       | 573,783  |                                      |



- (1) Average monthly closing price for Jan - Nov 2008 and Dec 15, 2008
- (2) Average monthly closing price for Jan - Nov 2009 and Dec 15, 2009
- (3) Set in convertible notes
- (4) Closing price on the 15th of the third month of each quarter.
- (5) Issuance of stock for equipment valued at \$7,500 on December 14, 2009

During the year ended December 31, 2008, the Company authorized total issuances of 3,095,970 shares of common stock. The issuances related to the following:

| Description                           | Quantity  | Stock Price                    |
|---------------------------------------|-----------|--------------------------------|
| Stock Dividend                        | 86,157    | Average Stock Price (1)        |
| Stock Dividend                        | 99,390    | Average Stock Price (2)        |
| Private Placement                     | 220,000   | Set @ \$.50                    |
| Conversion of Debt & Related Interest | 41,680    | Conversion Rate \$1.00 (3)     |
| Board Compensation                    | 215,357   | Quarterly Closing Price (4)    |
| CEO Compensation                      | 251,892   | Average Stock Price - 2008 (2) |
| Board Approved Issuances              | 2,181,494 | Various (5)                    |
|                                       | 3,095,970 |                                |

- (1) Average monthly closing price for Jan - Nov 2007 and Dec 15, 2007
- (2) Average monthly closing price for Jan - Nov 2008 and Dec 15, 2008
- (3) Set in convertible notes
- (4) Closing price at the end of each quarter.
- (5) Varied - majority (2.5M shares) issued for Lee Oil purchase @ \$.20

HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

## NOTE H - STOCKHOLDERS' EQUITY (Continued)

## Common Stock (Continued)

Per an Executive Employee Agreement entered into June 28, 2007 (amended October 1, 2008) with Terry Lee, the Company's CEO, the Company issued 500,000 common shares valued at \$180,000. The Company also granted five year employee non-statutory stock options to purchase 911,252 shares of common stock at an exercise price of \$.66 per share. The options were valued at \$240,883 using the Black-Scholes option-pricing model. The total amount of \$420,883 is being amortized over four years with \$86,928 having been included in common stock and additional paid in capital during 2009 and 2008. All shares issued under this option would be restricted and any portion of the option not exercised by June 26, 2024 will expire.

Per an Executive Employee Agreement entered into January 1, 2009 with Randy Frevert, the Chief Operating Officer of HS, the Company granted five year employee non-statutory stock options to purchase 250,000 shares of common stock at an exercise price of \$1.00 per share. The option was valued at \$66,900 using the Black-Scholes option-pricing model. The total amount is being amortized over five years with \$13,380 having been included in common stock and additional paid in capital during 2009. All shares issued under this option would be restricted and any portion of the option not exercised by December 31, 2013 will expire.

The two stock options used the following variables in calculation of the assigned value:

| Grant Date              | June 28, 2007 | January 1,<br>2009 |
|-------------------------|---------------|--------------------|
| Expected Life           | 5 years       | 5 years            |
| Expected Volatility     | 111.84 %      | 45.33 %            |
| Risk Free Interest Rate | 2.5 %         | 1.75 %             |
| Expected Dividends      | --            | --                 |

The following table summarizes the Company's employee stock option activity:

|                                | Options<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (yrs) | Fair Value at<br>Grant Date |
|--------------------------------|------------------------|--|---|-----------------------------|
| Outstanding at January 1, 2008 | 911,252                | \$ 0.66                                  | 4.49  | \$ 0.26                     |
| Granted                        | -                      | -  | -   | -                           |
| Exercised                      | -                      | -  | -   | -                           |
| Forfeited                      | -                      | -  | -   | -                           |
| Expirations                    | -                      | -  | -   | -                           |

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|   |           |         |      |         |
|---|-----------|---------|------|---------|
| Oustanding at December 31, 2008             | 911,252   | \$ 0.66 | 3.49 | \$ 0.26 |
| Granted                                     | 250,000   | \$ 1.00 | 5.00 | 0.27    |
| Exercised                                   | -         | -       | -    | -       |
| Forfeited                                   | -         | -       | -    | -       |
| Expirations                                 | -         | -       | -    | -       |
| Oustanding at December 31, 2009             | 1,161,252 | \$ 0.73 | 2.88 | \$ 0.26 |
| Vested and Exercisable at December 31, 2009 | 460,066   | \$ 0.70 | 2.88 | \$ 0.26 |

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HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

## NOTE I - INCOME TAXES

The Company files a consolidated Federal income tax return. Prior to 2008, the Company had erroneously not filed federal tax returns. The Company filed tax returns from 2003 through 2008 on the GAAP basis of accounting and did not comply with the Internal Revenue Code requirements. As such, there may be unidentified timing differences and penalties resulting from those erroneous filings. Because of these uncertainties, it is at least reasonably possible that the tax benefit recorded for 2009 will change in the near term. The Internal Revenue Service has not notified the Company of any scheduled examinations of the Company's returns. Due to the federal carry-forward losses available to the Company, the Company does not anticipate any significant tax liabilities or interest due.

The federal carry-forward losses available to the Company as of December 31, 2009 aggregate approximately \$2,800,000 to offset future taxable income of which \$676,000 expires in 2025, \$637,000 expires in 2026, and \$1,487,000 expires in 2027.

During 2008, the Company reversed the valuation allowance related to the net operating loss carry-forwards and other temporary items as we determined it was more likely than not that we would be able to use the assets to reduce future tax liabilities. The reversal resulted in recognition of an income tax benefit of \$1,806,400 and a corresponding increase in the net deferred tax asset on the Consolidated Balance Sheet.

Temporary differences which give rise to deferred taxes are summarized as follows at December 31:

## Deferred Tax Assets:

|                                  | 2009             | 2008             |
|----------------------------------|------------------|------------------|
| Allowance for bad debts          | \$ 46,290        | \$ 74,171        |
| Unearned supplier incentives     | 317,438          | 320,953          |
| Vacation accrual                 | 6,119            | 4,602            |
| Net operating loss carryforwards | 1,135,416        | 1,231,035        |
| <b>Total Deferred Tax Assets</b> | <b>1,505,263</b> | <b>1,630,761</b> |

## Deferred Tax Liabilities:

|   |                  |                  |
|---|------------------|------------------|
| Depreciation                                      | 79,650           | 92,925           |
| Purchase price allocation                         | 930,340          | 1,037,884        |
| <b>Total Deferred Tax Liabilities</b>             | <b>1,009,990</b> | <b>1,130,809</b> |
| <br>Net deferred tax assets                       | <br>495,273      | <br>499,952      |
| Less: Portion classified as current asset         | (252,409 )       | (678,774 )       |
| Portion classified as long-term asset (liability) | \$ 242,864       | \$ (178,822 )    |

The reconciliation of income tax expense computed at the U.S. Federal Statutory tax rates to the income tax expense (benefit) recorded for the years ended December 31 is as follows:

## Income Taxes

|                                  | 2009         | 2008           |
|----------------------------------|--------------|----------------|
| Federal income taxes at 34%      | \$ (10,834 ) | \$ 434,690     |
| Effect of permanent differences  | 19,522       | 11,609         |
| State income taxes               | 91,222       | 137,655        |
| Other                            | (1,827 )     | 44,584         |
| Change in valuation allowance    | -            | (1,806,400)    |
| Net income tax expense (benefit) | \$ 98,083    | \$ (1,177,862) |

HEARTLAND, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2009

## NOTE J – OPERATING LEASES

The Company maintains a number of leases on various pieces of real property. These leases are primarily the operating leases at the various retail locations of Lee Oil and require us to pay the related taxes, insurance and maintenance costs associated with those properties

At December 31, 2009, the minimum future lease payments over the next five years and in the aggregate are as follows:

| Year       | Amount     |
|------------|------------|
| 2010       | \$ 264,492 |
| 2011       | 237,760    |
| 2012       | 220,980    |
| 2013       | 117,650    |
| 2014       | 60,000     |
| Thereafter | 195,000    |

Rental expense totaled \$421,502 for 2009 and \$346,525 for 2008.

## NOTE K – CONTINGENCIES

The Company is subject to various claims in the ordinary course of business but believes their ultimate resolution will have no material adverse effect on its financial condition, results of operations or cash flows.

## NOTE L – BUSINESS SEGMENTS

The Company analyzes its assets, liabilities, cash flows, and results of operations by subsidiary. The Company relies on management at the first-level subsidiary (Mound, Lee Oil, HS) to analyze the subsidiary and report to Heartland. As a result, the Company makes its financial decisions based on the overall performance of the first level subsidiaries. The following table reflects the Company's segments at December 31, 2009:

|                      | Holding<br>Company<br>(Heartland) | Oil<br>Distributor<br>(Lee Oil) | Steel<br>Fabricator<br>(Mound) | Steel<br>Distributor<br>(HS) | Consolidated  |
|----------------------|-----------------------------------|---------------------------------|--------------------------------|------------------------------|---------------|
| Revenues             | \$ -                              | \$ 78,116,133                   | \$ 12,740,995                  | \$ 1,294,253                 | \$ 92,151,381 |
| Gross Margins        | -                                 | 8,017,885                       | 2,039,760                      | 222,443                      | 10,280,088    |
| Operating Expenses   | 1,050,124                         | 7,512,020                       | 817,196                        | 559,949                      | 9,939,288     |
| Other Income         | (536,227 )                        | 195,445                         | 2,540                          | (34,422 )                    | (372,664 )    |
| Depreciation Expense | 271,260                           | 770,935                         | 143,811                        | 92,778                       | 1,278,784     |
| Interest Expense     | 536,244                           | 280,674                         | 58,345                         | 34,479                       | 909,742       |

|                                   |             |              |              |              |               |
|-----------------------------------|-------------|--------------|--------------|--------------|---------------|
| Net (Loss) Income From Operations |             |              |              |              |               |
| Before Income Taxes               | (1,586,351) | 701,310      | 1,225,104    | (371,928 )   | (31,864 )     |
| Current Assets                    | \$ 242,211  | \$ 5,984,159 | \$ 5,208,141 | \$ 1,310,922 | \$ 12,745,432 |
| Total Assets                      | 2,591,731   | 11,932,419   | 7,169,555    | 4,565,346    | 26,259,051    |
| Current Liabilities               | 1,426,217   | 2,199,324    | 1,793,331    | 857,676      | 6,276,548     |
| Total Liabilities                 | 7,492,575   | 7,196,412    | 2,746,306    | 3,442,386    | 20,877,679    |
| Capital Expenditures              | 20,994      | 1,269,201    | 100,218      | 2,904,572    | 4,294,985     |

HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009

## NOTE L – BUSINESS SEGMENTS (Continued)

The following table reflects the Company's segments at December 31, 2008:

|                                      | Holding<br>Company<br>(Heartland) | Oil<br>Distributor<br>(Lee Oil) | Steel<br>Fabricator<br>(Mound) | Steel<br>Distributor<br>(HS) | Consolidated  |
|--------------------------------------|-----------------------------------|---------------------------------|--------------------------------|------------------------------|---------------|
| Revenues                             | \$ -                              | \$ 20,417,082                   | \$ 19,122,241                  | \$ -                         | \$ 39,539,323 |
| Gross Margins                        | -                                 | 2,281,495                       | 2,825,050                      | -                            | 5,106,545     |
| Operating Expenses                   | 938,913                           | 1,994,078                       | 939,125                        | -                            | 3,872,116     |
| Other Income                         | (36,035 )                         | 17,014                          | 63,091                         | -                            | 44,070        |
| Depreciation Expense                 | 67,215                            | 155,098                         | 116,492                        | -                            | 338,805       |
| Interest Expense                     | 49,401                            | 62,205                          | 69,513                         | -                            | 181,119       |
| Net (Loss) Income From<br>Operations |                                   |                                 |                                |                              | 0             |
| Before Income Taxes                  | (974,948 )                        | 304,431                         | 1,949,016                      | -                            | 1,278,499     |
| Current Assets                       | \$ 689,747                        | \$ 6,741,938                    | \$ 5,115,434                   | \$ 33,752                    | \$ 12,580,871 |
| Total Assets                         | 2,963,505                         | 12,350,145                      | 7,116,567                      | 475,000                      | 22,905,217    |
| Current Liabilities                  | 283,456                           | 2,156,883                       | 2,879,987                      | -                            | 5,320,326     |
| Total Liabilities                    | 6,635,073                         | 7,157,081                       | 3,942,042                      | -                            | 17,734,196    |
| Capital Expenditures                 | -                                 | 338,550                         | 562,682                        | 441,248                      | 1,342,480     |

## NOTE M – ACQUISITION OF LEE OIL

On October 1, 2008 the Company entered into a Securities Purchase Agreement (the "Agreement") with Lee Holding Company LP and Gary Lee ("Sellers"). Pursuant to the Agreement, the Company acquired and, the Sellers sold, all of the outstanding securities of Lee Oil. Terry Lee, the Company's Chief Executive Officer and a director of the Company, is the principal partner of Lee Holding Company LP. Gary Lee is the vice-president of Lee Oil Company and relative of Terry Lee.

In consideration for all of the outstanding securities of Lee Oil, the Company paid the Sellers \$3,250,000 in cash, issued the Sellers promissory notes for an aggregate of \$3,250,000 (the "Lee Companies Notes") and 1,250,000 shares of common stock of the Company. The Lee Companies Notes carry interest of 8% per year and the Company is required to pay the Sellers an aggregate of \$27,418 per month until the Lee Companies Notes are paid in full.



In connection with the acquisition of Lee Oil, the Company entered an Employment, Noncompetition and Nondisclosure Agreement with Terry Lee. In consideration for Mr. Lee serving as CEO, Mr. Lee shall receive an annual salary of \$140,000 and 75,000 shares of common stock.

In order to fund the cash purchase price of the acquisition, on October 1, 2008, the Company entered into a Loan Agreement (the "Loan Agreement") with Choice Financial Group ("Choice"). Pursuant to the Loan Agreement, the Company executed a Promissory Note in the amount of \$3,250,000 (the "Choice Note"). The Company is required to pay a monthly installment of \$30,799 and the outstanding balance including annual interest of 7.75% is required to be paid in full by September 30, 2011.

The following is an unaudited condensed statement of operations for the year ended December 31, 2008 showing the combined results of operations of the Company (including all other consolidated subsidiaries) and Lee Oil as though the Company had acquired Lee Oil on January 1, 2008:

HEARTLAND, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## NOTE M – ACQUISITION OF LEE OIL (Continued)

|                    | Pro Forma –<br>Unaudited |
|--------------------|--------------------------|
| Revenue            | \$133,365,220            |
| Gross Margins      | 11,390,576               |
| Operating Income   | 2,249,251                |
| Net Income (Loss)  | 3,137,934                |
| Earnings per Share | \$0.16                   |

The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed at the date of acquisition as recorded by the Company at October 1, 2008:

|                             |             |
|-----------------------------|-------------|
| Current Assets              | \$8,004,359 |
| Property, Plant & Equipment | 7,682,547   |
| Total Assets Acquired       | 15,686,906  |
| Current Liabilities         | 3,875,764   |
| Long-Term Debt              | 4,811,142   |
| Total Liabilities Assumed   | 8,686,906   |
| Net Assets Acquired         | \$7,000,000 |

In accordance with the security agreements entered between the Company and Choice, substantially all the assets of the Company collateralize the Choice Note and the securities of each of the subsidiaries of the Company were also pledged to Choice. In addition, each of the Sellers entered into a subordination agreement with Choice and Terry Lee entered a Put Agreement with Choice whereby Mr. Lee agreed to acquire the Choice Note in the event that Company defaults.

Prior to the acquisition of the Lee Companies, except for the fact that Terry Lee is an executive officer, director and shareholder of the Company and Gary Lee is a relative of Terry Lee, no material relationship existed between the Company and the Sellers and/or their affiliates, directors, officers or any associate of an officer or director.

The shares issued in connection with the purchase of the Lee Companies and in connection with Mr. Lee's employment agreement were offered and sold in a private placement transaction made in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act of 1933 and Rule 506 promulgated thereunder. Each of the former shareholders of the Lee Companies are accredited investors as defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

The Company has had no disagreements with its certified public accountants with respect to accounting practices or procedures or financial disclosure.

**ITEM 9A. CONTROLS AND PROCEDURES**

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. 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 2009, 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.

Except as set forth above, there have been no changes in our internal control over financial reporting that occurred during the year ended December 31, 2009 that have materially affected or reasonably linked to materially affect our internal control over financial reporting.

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permits the Company to provide only management's report in this Annual Report.

## PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS:  
COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The directors and officers of our Company are set forth below. The directors held office for their respective term and until their successors were duly elected and qualified. Vacancies in the existing Board were filled by a majority vote of the remaining directors. The officers serve at the will of the Board of Directors.

| Name                        | Age | With Company<br>Since | Director/Position          |
|-----------------------------|-----|-----------------------|----------------------------|
| Terry L. Lee                | 52  | 06/2007               | CEO, Chairman of the Board |
| Thomas C. Miller            | 54  | 12/2003               | Secretary and Director     |
| Mitchell L. Cox,<br>CPA     | 48  | 09/2007               | Chief Financial Officer    |
| Trent Sommerville           | 42  | 12/2003               | Director                   |
| Randy Frevert               | 53  | 3/2008                | Director                   |
| Dr. Kenneth B.<br>Farris(1) | 60  | 4/2004                | Director                   |

(1) Dr. Farris resigned his position on the Board on January 11, 2010.

## MR. TERRY L. LEE - CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD

Prior to joining the Company, from 1995 to the present, Mr. Lee has served as the President and Chief Executive Officer of Commercial Bank where he is responsible for the management of \$426 million in assets, 14 locations and 151 employees. In 1989, prior to his appointment as Chief Executive Officer in 1994, Mr. Lee began his career with Commercial Bank as a bookkeeper where he eventually moved to Vice President - Marketing in 1991, Vice president – Loan Officer in 1991 and Senior Vice President – Senior Lending Officer in 1992. In addition to serving as the Chief Executive Officer and President of Commercial Bank, Mr. Lee serves as the Chief Executive Officer and President of Lee Oil Company, Inc., Lee Enterprises, Inc., Lee's Food Mart, LLC, Cumberland Ford Motors, Inc., L & M Ventures, Inc., Green Hill Properties, Inc. and Berea Ford Motors, Inc. Mr. Lee graduated from Lincoln Memorial University with a Bachelor of Arts in Business Administration and Management in 1979.

## MR. MITCHELL L. COX, CPA – CHIEF FINANCIAL OFFICER

Mr. Cox is a certified public accountant and has served as the President and owner of Accounting & Tax Solutions, Inc. advising clients on all aspects of the accounting business. Further, Mr. Cox has also served as the Controller and

Secretary for Lee Oil Company where he has managed all financial transactions and record keeping. Mr. Cox received his BS in Business from Carson Newman College in Jefferson City, TN in 1984.

**MR. TRENT SOMMERVILLE – DIRECTOR**

Mr. Sommerville was elected as Director and Chairman of the Board on December 1, 2003. Mr. Sommerville has been appointed as our Chief Executive Officer and served in that capacity from December 1, 2003 until June 27, 2007 when Terry L. Lee was appointed to serve in that capacity. Mr. Sommerville attended Perkingston College. Mr. Sommerville worked at Anjet where he obtained NASD Series 22 and Series 63 licenses. Following his experience there, Mr. Sommerville started IGE Capital where he has been actively involved in many venture capital opportunities including FYBX Corporation, Cyber Operations, Way Cool 3D, and PMI Wireless.

**MR. THOMAS C. MILLER – SECRETARY AND DIRECTOR**

Mr. Miller has been with the Registrant since 2003 when it acquired Mound Technologies, Inc. Mr. Miller was elected to the Board of Directors on May 23, 2006, and as its Chief Operating Officer on September 27, 2006. From May 23, 2006 to September 27, 2006, Mr. Miller acted as the Registrant's Chief Executive Officer. Mr. Miller graduated from Ohio State University with a Bachelor of Science degree in Civil Engineering in 1978 and continued his education at the University of Dayton where he received a Master of Business Administration degree in 1983. He is a registered engineer in the state of Ohio. Mr. Miller started on the shop floor at Mound Steel Corporation as a welder. He spent time working in the engineering and sales department before becoming Vice President of Sales and Quality in 1986. He became President of Mound Steel Corporation in 1990. The additional title of Chief Executive was added to his responsibilities in 2001. In November of 2002, Mr. Miller became Chief Executive officer of Mound Technologies, Inc. In 1988 he was elected to the Lebanon City Council. He was re-elected in 1992 and served as Vice Mayor during that time period. Mr. Miller has served on various local boards including the Middletown Regional Hospital Foundation, Dan Beard Council of Boy Scouts of America, and the Warren County Business Advisory Council. In addition to his new position as President and Chief Operating Officer of the Registrant, Mr. Miller will continue as President of the Registrant's subsidiary Mound Technologies, Inc.

**RANDY FREVERT - DIRECTOR**

Mr. Frevert, since June 2007, has served as the Vice President for Patriot Steel, Inc., a full line structural steel service center. Prior to joining Patriot Steel, Inc., Mr. Frevert served as the Product/Processing Manager for Leeco Steel/O'Neal Steel, Inc. from October 2006 through May 2007. From July 2005 through October 2006, Mr. Frevert was Vice President for Industrial Steel Construction, Inc. and from March 1995 through July 2005 was the Vice President/General Manager for Action Steel Supply, Inc. Mr. Frevert graduated from Indiana Wesleyan University with a BSBA and MBA. Mr. Frevert serves as an adjunct faculty member for Indiana Wesleyan University.

#### DR. KENNETH B. FARRIS – DIRECTOR

Dr. Farris was appointed a director of our Company on January 8, 2004. Dr. Farris, a resident of New Orleans, Louisiana is a graduate of Tulane University's School of Medicine where he received his MD and MPH degrees in 1975. He is a graduate of Carnegie-Mellon University where he received his BS degree in 1971. Dr. Farris is board certified in Pathology. He has been teaching at Tulane University School of Medicine since 1975 where he has received numerous awards for outstanding teaching. Since 1991 he has held the position of Clinical Associate Professor, Department of Pathology and Clinical Associate Professor Department of Pediatrics. In addition, Dr. Farris holds the position of Director of Pathology at West Jefferson Medical Center in Marrero, Louisiana, and Medical Director, Laboratory at Pendleton Memorial Methodist Hospital. Dr. Farris is a member of various medical societies and has published extensively. Among his many accomplishments in his field, as of 1982 he holds the position of Laboratory Accreditation Program Inspector for the College of American Pathologists. He is a founding member and past President of the Greater New Orleans Pathology Society. He is currently a Delegate to the House of Delegates to the American Medical Association. He has held various positions including past President, Speaker to the House of Delegates, member of the Board of Governors and a current Delegate to the House of Delegates to the Louisiana State Medical Society. He has held the position of President, Vice President, Secretary and Treasurer for the Tulane Medical Alumni Association. He is a former Drug Control Crew Chief to the United States Olympic Committee.

Our bylaws currently provide for a board of directors comprised of such number as is determined by the Board.

#### FAMILY RELATIONSHIPS

None.

#### BOARD COMMITTEES

Our business, property and affairs are managed by or under the direction of the board of directors. Members of the board are kept informed of our business through discussion with the chief executive and financial officers and other officers, by reviewing materials provided to them and by participating at meetings of the board and its committees.

The total number of meetings of the Board of Directors during the fiscal year ended December 31, 2009 was four. The Board of Directors did not decide any matters by written consent. Each of the incumbent directors attended a majority of (i) the meetings of the Board during the year and (ii) the total number of meetings of all committees of the Board on which the incumbent directors served.

The Compensation Committee did not meet during the year ended December 31, 2009. All matters addressed by the Compensation Committee were decided on by the Board of Directors. The function of the Committee is to approve stock plans and option grants and review and make recommendations to the Board of Directors regarding executive compensation and benefits.

As of December 31, 2009, the Audit Committee consisted of the following members: Dr. Kenneth B. Farris, Trent Sommerville, and Randy Frevert. Responsibilities of the Committee include (1) reviewing financial statements and consulting with the independent auditors concerning the Company's financial statements, accounting and financial policies, and internal controls, (2) reviewing the scope of the independent auditors' activities and the fees of the independent auditors, and (3) reviewing the independence of the auditors. The majority of the members of the Audit Committee meet the independence standards established by the National Association of Securities Dealers.



### Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than 10 percent of our Common Stock, to file with the SEC the initial reports of ownership and reports of changes in ownership of common stock. Officers, directors and greater than 10 percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

Specific due dates for such reports have been established by the Commission and we are required to disclose any failure to file reports. Except as otherwise set forth herein, based solely on review of the copies of such forms furnished to us, or written representations that no reports were required, we believe that to date all required forms have been filed, and that there was no failure to comply with Section 16(a) filing requirements applicable to our officers, directors and ten percent stockholders. However, it should be noted, each of the officers and directors filed their Form 4 Changes in Beneficial Ownership disclosing their stock award compensation late.

### CODE OF ETHICS

Because we are an early stage company with limited resources, we have not yet adopted a "code of ethics", as defined by the SEC, that applies to the Company's Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller and persons performing similar functions. We are in the process of drafting and adopting a Code of Ethics.

### ITEM 11. EXECUTIVE COMPENSATION

Compensation for our executive officers is determined by our compensation committee, which has historically been comprised solely of independent directors. Recently, a compensation committee member has resigned and, as a result, our board of directors has been handling all compensation matters. Our philosophy is to provide a compensation package that attracts and retains executive talent. We strive to provide our named executive officers, who are the officers listed in the summary compensation table, with a competitive base salary that is in line with their roles and responsibilities when compared to peer companies of comparable size in similar locations.

Although the principal compensation of our executive officers will be salary, we may provide officers with equity-based incentives. The base salary level and the nature and amount of equity-based incentives is established and reviewed by the compensation committee based on the level of responsibilities, the experience and tenure of the individual and the current and potential contributions of the individual. In determining base salary, we give consideration to persons holding similar positions within comparable peer companies and consideration is given to the executive's relative experience in his or her position. Base salaries are reviewed periodically and at the time of promotion or other changes in responsibilities.

The following table provides summary information for the years 2009 and 2008 concerning cash and non-cash compensation paid or accrued by us to or on behalf of the president and the only other employee(s) to receive compensation in excess of \$100,000.

### SUMMARY COMPENSATION TABLE

Year Salary (\$)



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| Name & Principal Position |      | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation and (\$) | Change in Pension Value Non-Qualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|---------------------------|------|------------|-------------------|--------------------|---|---|-----------------------------|------------|
| Terry L Lee               | 2009 | 60,000     | -                 | 100,000            | 86,928  | -   | -                           | -246,928   |
| CEO and Chairman          | 2008 | 34,000     | -                 | 120,667            | 86,928  | -   | -                           | -241,595   |
| Tom Miller                | 2009 | 189,060    | -                 | 20,000             | -   | -   | -                           | -209,060   |
| COO - Mound and Secretary | 2008 | 115,969    | -                 | 20,000             | -   | -   | -                           | -135,969   |
| Randy Frevert             | 2009 | 160,000    | -                 | 20,000             | 13,380  | -   | -                           | -193,380   |
| COO - HS and Director     | 2008 | -          | -                 | 20,000             | -   | -   | -                           | - 20,000   |

## Outstanding Equity Awards at Fiscal Year-End Table.

| Option Awards<br>Name | Option Awards   |   |  |                            | Stock Awards           |  |   |  |  |
|-----------------------|---|---|--|----------------------------|------------------------|--|---|--|--|
|                       | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units Not Vested (#) | Market Value of Shares or Units Vested (\$) | Equity Incentive Plan Awards: Number of Shares or Units Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Units Not Vested (\$) |
| Terry Lee             | 911,252   | 911,252   |  | \$ 0.66                    | 6/26/2024              | NA                                       | NA  | NA   | NA   |
| Randy Frevert         | 50,000  | 200,000   |  | \$ 1.00                    | 12/31/2013             | NA                                       | NA  | NA   | NA   |

No other annual compensation, including a bonus or other form of compensation; and no long-term compensation, including restricted stock awards, securities underlying options, LTIP payouts, or other form of compensation, were paid to these individuals during this period.

## COMPENSATION AGREEMENTS

The Company has entered into an employment contract with Terry L. Lee as the CEO and is detailed in the 8-K filed on June 28, 2007. The five year employment contract calls for a base salary of \$120,000 a year which is actually a one year contract with the option to automatically renew for four additional one year periods. In addition to the base salary, Mr. Lee was granted 500,000 shares of common stock and an option to purchase additional shares over the term of the five year contract. Currently, no portion of this option has been exercised. With Board approval, Mr. Lee's contract was renewed to reflect an adjusted base salary of \$140,000 a year. During 2008, Mr. Lee received 251,892 shares of common stock during the year in payment of accrued wages established in the employment contract. The value assigned to these shares was \$120,667. During 2009, Mr. Lee received 166,528 shares valued at \$80,000 for payment of accrued wages from the employment contract.

The Company has entered into an employment contract with Randy Frevert as the Chief Operating Officer and President of Heartland Steel. The five year employment contract calls for a base salary of \$160,000 a year and became effective January 1, 2009. In addition to the base salary, Mr. Frevert was granted an option to purchase 250,000 shares of common stock pro-rata over the life of the contract. The exercise price of the stock is set at \$1.00 a share and any option not exercised by December 31, 2013 will expire.

## BOARD COMPENSATION

Members of our Board of Directors do not normally receive cash compensation for their services as Directors, although some Directors are reimbursed for reasonable expenses incurred in attending Board or committee meetings. All corporate actions are conducted by unanimous written consent of the Board of Directors. There were 199,232 shares of common stock issued in 2009 for members of the Board as compensation. These shares were issued based on the closing price of the shares on the fifteenth of the third month of each quarter. Total value given to the shares issued as Board compensation in 2009 was \$100,000. Below is a table summarizing the compensation for each of the directors during the last fiscal year:

| Name                 | Cash Pd<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) | Non-Equity<br>Incentive<br>Plan (\$) | Nonqualified<br>Deferred<br>(\$) | All Other<br>(\$) | Total<br>(\$) |
|----------------------|-----------------|-------------------------|--------------------------|--------------------------------------|----------------------------------|-------------------|---------------|
| Terry Lee            | -               | 20,000                  | -                        | -                                    | -                                | -                 | 20,000        |
| Tom Miller           | -               | 20,000                  | -                        | -                                    | -                                | -                 | 20,000        |
| Trent<br>Sommerville | -               | 20,000                  | -                        | -                                    | -                                | -                 | 20,000        |
| Randy Frevert        | -               | 20,000                  | -                        | -                                    | -                                | -                 | 20,000        |
| Kenneth Farris       | -               | 20,000                  | -                        | -                                    | -                                | -                 | 20,000        |

#### STOCK OPTION PLANS

The Company has two employee non-statutory stock option agreements. Option 1, as detailed in Form 8-K filed on June 28, 2007, was granted with Board approval to Terry L. Lee and contains the option to purchase 911,252 shares of common stock at an exercise price of \$0.66 over a pro-rata four year basis. All shares issued under this option would be restricted and any portion of the option not exercised by June 26, 2024 will expire.

Option 2 was granted with Board approval to Randy Frevert and contains the option to purchase 250,000 shares of common stock at an exercise price of \$1.00 over a pro-rate five year basis. All shares issued under this option would be restricted and any portion of the option not exercised by December 31, 2013 will expire.

| Option Information | Option 1      | Option 2        |
|--------------------|---------------|-----------------|
| Date of Option     | June 27, 2007 | January 1, 2009 |
| Optionee:          | Terry Lee     | Randy Frevert   |
| Number of Shares   | 911,252       | 250,000         |
| Exercise Price     | \$0.66        | \$1.00          |

The Options shall be exercised by delivery to the Company of (a) written notice of exercise stating the number of Shares being purchased (in whole shares only) and such other information set forth on the form of Notice of Exercise.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of March 26, 2010, information with respect to the beneficial ownership of the Company's Common Stock by (i) each person known by the Company to own beneficially 5% or more of such stock, (ii) each Director of the Company who owns any Common Stock, and (iii) all Directors and Officers as a group, together with their percentage of beneficial holdings of the outstanding shares.

The information presented below regarding beneficial ownership of our voting securities has been presented in accordance with the rules of the Securities and Exchange Commission and is not necessarily indicative of ownership for any other purpose. Under these rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of the security or the power to dispose or direct the disposition of the security. A person is deemed to own beneficially any security as to which such person has the right to acquire sole or shared voting or investment power within 60 days through the conversion or exercise of any convertible security, warrant, option or other right. More than one person may be deemed to be a beneficial owner of the same securities. The percentage of beneficial ownership by any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person, which includes the number of shares as to which such person has the right to acquire voting or investment power within 60 days, by the sum of the number of shares outstanding as of such date plus the number of shares as to which such person has the right to acquire voting or investment power within 60 days. Consequently, the denominator used for calculating such percentage may be different for each beneficial owner. Except as otherwise indicated below and under applicable community property laws, we believe that the beneficial owners of our common stock listed below have sole voting and investment power with respect to the shares shown.

#### SECURITY OWNERSHIP OF BENEFICIAL OWNERS:

None

#### SECURITY OWNERSHIP OF MANAGEMENT:

| Title of Class | Name | Shares | Percent |
|----------------|------|--------|---------|
|----------------|------|--------|---------|

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|   |                   |           |        |
|---|-------------------|-----------|--------|
| Common Stock  | Trent Sommerville | 2,413,292 | 10.99% |
| Common Stock  | Terry L. Lee      | 2,180,351 | 9.71%  |
| Common Stock  | Kenneth B. Farris | 457,814   | 2.08%  |
| Common Stock  | Thomas Miller     | 925,742   | 4.22%  |
| Common Stock  | Randy Frevert     | 138,242   | 0.63%  |
| Common Stock  | Mitchell L. Cox   | 75,742    | 0.35%  |
| All Directors and Executive Officers as a group (6 persons) |                   | 6,191,183 | 27.98% |

- (1) These tables are based upon 21,953,590 shares outstanding as of March 26, 2010 and information derived from our stock records. Unless otherwise indicated in the footnotes to these tables and subject to community property laws where applicable, we believe unless otherwise noted that each of the shareholders named in this table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares which such person has the right to acquire within 60 days as of February 18, 2010. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on February 18, 2010 any security which such person or group of persons has the right to acquire within 60 days after such date is deemed to be outstanding for the purpose of computing the percentage ownership for such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Our management is involved in other business activities and may, in the future become involved in other business opportunities. If a specific business opportunity becomes available, such persons may face a conflict in selecting between our business and their other business interests. We have not and do not intend in the future to formulate a policy for the resolution of such conflicts.

No director, executive officer or nominee for election as a director of our company, and no owner of five percent or more of our outstanding shares or any member of their immediate family has entered into or proposed any transaction in which the amount involved exceeds \$60,000 except as set forth below.

During the year ended December 31, 2009, Lee Oil sold 587,250 gallons of diesel fuel to a mining company of which Terry Lee, the Company CEO, is a 33% owner. The total amount invoiced for these gallons sold was approximately \$1.1 million.

During the year ended December 31, 2009, Lee Oil leased a piece of property from L&M Ventures of which Terry Lee, the Company CEO, is a 50% owner. The lease payments totaled \$64,800 for the year.

Lee Holding Company of which Terry Lee, the Company CEO, is the managing partner, purchased a piece of property in June from D&B Properties, Inc. Lee Oil had been leasing the property from D&B Properties and continues to lease the property. The lease payments for the months of June through December totaled \$37,400.

During the year ended December 31, 2009, Heartland Steel completed construction of the warehouse and office facility located in Washington Court House, OH. The construction loan in the amount of \$2,400,000 was converted into a regular installment note through Commercial Bank of Harrogate, TN. Terry Lee, the Company's CEO, is also the CEO of Commercial Bank.

On June 3, 2009, the Lee Oil purchased a piece of property located at 3259 Highway 25E in Tazewell, TN for the gross selling price of \$888,856. The purchase was funded primarily by a loan in the amount of \$626,384 through Commercial Bank of Harrogate, TN. Terry Lee, the Company's CEO, is also the CEO of Commercial Bank.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth fees billed to us by our auditors during the fiscal years ended December 31, 2009 and December 31, 2008 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements, (ii) services by our auditor that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees, (iii) services rendered in connection with tax compliance, tax advice and tax planning, and (iv) all other fees for services rendered.

(i) Audit Fees

| FIRM                  | FISCAL<br>YEAR<br>2009 | FISCAL<br>YEAR<br>2008 |
|-----------------------|------------------------|------------------------|
| Meyler & Company, LLC | \$0                    | \$118,000              |
| Coulter & Justus, PC  | \$225,000              | \$35,000               |

(ii) Audit Related Fees

None

(iii) Tax Fees

None

(iv) All Other Fees

None

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**AUDIT FEES.** Consists of fees billed for professional services rendered for the audit of our consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided in connection with statutory and regulatory filings or engagements.

**AUDIT-RELATED FEES.** Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." There were no Audit-Related services provided in fiscal 2009 or 2008.

**TAX FEES.** Consists of fees billed for professional services for tax compliance, tax advice and tax planning.

**ALL OTHER FEES.** Consists of fees for products and services other than the services reported above.

**POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITORS**

The Company currently has a designated Audit Committee, and accordingly, the Company's Board of Directors' policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, and tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Company's Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis.

**Part IV**

**ITEM 15. EXHIBITS**

Exhibit Number Document Description

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act.

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.



32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350  
as adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

HEARTLAND INC.  
(Registrant)

Date: March 31, 2010

By: /s/ Terry Lee  
Terry Lee  
Chief Executive Officer  
And Chairman of the Board of  
Directors  
(Principal Executive Officer)

Date: March 31, 2010

By: /s/ Mitchell Cox  
Mitchell Cox  
Chief Financial Officer  
(Principal Financial Accounting and  
Financial Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE             | NAME              | TITLE  | DATE           |
|-----------------------|-------------------|--|----------------|
| /s/ Terry Lee         | Terry Lee         | Chief Executive Officer, Chairman & Director | March 31, 2010 |
| /s/ Mitchell Cox      | Mitchell Cox      | Chief Financial Officer                      | March 31, 2010 |
| /s/ Thomas C. Miller  | Thomas C. Miller  | Secretary & Director                         | March 31, 2010 |
| /s/ Trent Sommerville | Trent Sommerville | Director                                     | March 31, 2010 |
| /s/ Randy Frevert     | Randy Frevert     | Director                                     | March 31, 2010 |