HEARTLAND, INC.
Form 10-Q
August 14, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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

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

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

P.O. Box 4320
Harrogate, TN 37752
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x

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

Large accelerated filer o Accelerated filer o

Non accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes oNo x

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 7, 2009, there were 44,592,558 shares of common stock, $.001 par value per share, outstanding.

HEARTLAND, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HEARTLAND, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2009 (Unaudited)	December 31, 2008
CURRENT ASSETS		
Cash	$2,774,945	$4,101,692
Accounts receivable, net	6,287,318	4,885,878
Inventory	3,287,200	2,775,635
Prepaid expenses and other current assets	726,672	817,666
Total current assets	13,076,135	12,580,871
PROPERTY, PLANT AND EQUIPMENT, net	11,916,497	10,256,234
OTHER ASSETS	97,158	68,112
Total assets	$25,089,790	$22,905,217

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2009 (Unaudited)	December 31, 2008
CURRENT LIABILITIES		
Accounts payable	$3,554,130	$2,741,435
Other current liabilities	1,055,150	1,244,170
Current portion of notes payable	917,930	1,205,594
Current portion of notes payable to related parties	129,127	129,127
Total current liabilities	5,656,337	5,320,326
LONG-TERM OBLIGATIONS		
Notes payable, less current portion	9,840,726	8,204,783
Notes payable to related parties, less current portion	3,273,177	3,330,872
Other long-term liabilities	689,149	878,215
Total long term liabilities	13,803,052	12,413,870
Total liabilities	19,459,389	17,734,196
STOCKHOLDERS' EQUITY		
Preferred stock $0.001 par value 5,000,000 shares 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 authorized; 44,592,558 and 42,759,047 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	44,593	42,759
Additional paid-in capital – common stock	17,385,009	17,011,726
Accumulated deficit	(12,515,138)	(12,599,401)
Total stockholders' equity	5,630,401	5,171,021
Total Liabilities and Stockholders' Equity	$25,089,790	$22,905,217

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

HEARTLAND, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
SALES	$22,779,586	$6,199,788	$42,517,265	$10,258,584
Cost of goods sold	(20,284,632)	(5,292,264)	(37,355,072)	(8,570,489)
Gross profit	2,494,954	907,524	5,162,193	1,688,095
EXPENSES	2,538,684	490,946	4,964,970	871,303
NET OPERATING (LOSS)INCOME	(43,730)	416,578	197,223	816,792
Other income (expense)	29,859	12,922	(113,043)	14,465
(LOSS) INCOME BEFORE INCOME TAXES	(13,871)	429,500	84,180	831,257
Federal and state income taxes				
Income taxes, current period	(33,658)	-	(47,555)	-
Income tax benefit, deferred	28,226	-	55,112	-
(LOSS) INCOME FROM CONTINUING OPERATIONS	(19,303)	429,500	91,737	831,257
LESS: Preferred Dividends	(14,813)	(14,813)	(29,626)	(29,626)
NET (LOSS) INCOME AVAILABLE TO COMMON STOCKHOLDERS	$(34,116)	$414,687	$62,111	$801,631

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

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

(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$(558,275)	$629,536
CASH FLOWS FROM INVESTING ACTIVITIES		
Net payments for property, plant and equipment	(2,319,056)	(1,190,898)
Net proceeds from disposition of assets	260,000	-
NET CASH USED IN INVESTING ACTIVITIES	(2,059,056)	(1,190,898)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from notes payable	1,348,279	884,630
Net payments on notes to related parties	(57,695)	(49,151)
Payments on capital lease	-	(34,891)
Proceeds from issuance of common stock	-	290,000
NET CASH PROVIDED BY FINANING ACTIVITIES	1,290,584	1,090,588
(DECREASE) INCREASE IN CASH	(1,326,747)	529,226
CASH, BEGINNING OF PERIOD	4,101,692	216,570
CASH, END OF PERIOD	$ 2,774,945	$ 745,796
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 455,756	$ 26,662
Taxes paid	$ 47,555	$ -
NON CASH INVESTING AND FINANCING ACTIVITIES		
Amortization of deferred compensation as share based compensation	$ 50,154	$ 21,732
Issuance of common stock for services and settlement	$ 285,000	$ -
Issuance of common stock in payment of convertible promissory notes & accrued interest	$ 32,490	$ -
Issuance of common stock for dividends	$ 7,473	$ -
Purchase of Mound facilities by settlement of amount to/from former landlord	$ -	$ 141,657
Settlement of amount due from landlord	$ -	$ 426,321
Settlement of amount due to landlord	$ -	$ 284,664

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

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HEARTLAND, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
JUNE 30, 2009

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with Regulation S-K promulgated by the Securities and Exchange Commission and do not include all of the information and notes required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, these interim financial statements include all adjustments, which include only normal recurring adjustments, necessary in order to make the financial statements not misleading. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company and management's discussion and analysis of financial condition and results of operations included in the Company's Annual Report for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on Form 10-K.

The balance sheet at December 31, 2008 has been derived from the audited financial statements of that date, but does not include all of the information and notes required by accounting principles generally accepted in United States of America for complete financial statements.

We have evaluated subsequent events that have occured since the end of the second quarter through August 14, 2009.

NOTE B COMMON STOCK

During the quarter ended June 30, 2009, the Company authorized the issuance of 886,362 shares of common stock. The issuance related to the following:

Description	Quantity	Closing Price Date
Board Compensation	136,362	June 15, 2009
Employment Contract – Tom Miller	750,000	Valued at $0.15/share
	886,362	

During the quarter ended March 31, 2009, the Company authorized the issuance of 947,149 shares of common stock. The issuance related to the following:

Description	Quantity	Closing Price Date
Stock Dividend	28,377	Monthly average
Conversion of Debt & Related Interested	32,410	Set by note at $1/share
Board Compensation	136,362	March 15, 2009
Employment Contract – Randy Frevert	750,000	Valued at $0.15/share
	947,149	

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HEARTLAND, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
JUNE 30, 2009

NOTE C EARNINGS PER SHARE

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

The following table sets forth the computation of basic and diluted earnings per share for the six months ended June 30:

	2009	2008
Basic:		
Net income available to common stockholders	$62,111	$801,631
Weighted average common shares outstanding	43,734,379	37,132,409
Income per share	$0.00	$0.02
Diluted:		
Net income available to common stockholders	$62,111	$801,631
Adjusted weighted average common shares outstanding	46,104,379	39,879,796
Income per share	$0.00	$0.02

The following table sets forth the computation of basic and diluted earnings per share for the three months ended June 30:

	2009		2008	
Basic:				
Net (loss) income available to common stockholders	$	(34,116)	$	414,687
Weighted average common shares outstanding		44,453,948		37,237,105
(Loss) income per share	$	(0.00)	$	0.01
Diluted:				
Net income available to common stockholders		(1)	$	414,687
Adjusted weighted average common shares outstanding		(1)		39,986,039
Income per share		(1)	$	0.01

(1) Due to the net loss available to common shareholders, adding diluting securities to the denominator would not properly reflect earnings per share.

NOTE D BUSINESS SEGMENTS

The consolidated financial statements include the accounts of Heartland, Inc. (“Heartland”) and its wholly owned subsidiaries, Mound Technologies, Inc. (“Mound”), Lee Oil Company, Inc. (“Lee Oil”), and Heartland Steel, Inc. (“HS”) for the three and six month periods ending June 30, 2009. Mound was the only operating segment for the three and six month periods ending June 30, 2008.

All significant intercompany accounts and transactions have been eliminated.

HEARTLAND, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
JUNE 30, 2009

NOTE D BUSINESS SEGMENTS (Continued)

The following table reflects the Company's segments for the three and six month periods ended June 30, 2009:

	Holding Company (Heartland)	Oil Distributor (Lee Oil)	Steel Fabricator (Mound)	Steel Distributor (HS)	Consolidated
Total Assets	$2,785,773	$12,915,534	$7,666,946	$1,721,537	$25,089,790
Three Months					
Revenues	-	19,499,213	3,155,854	124,519	22,779,586
Gross Margins	-	1,891,010	593,339	10,605	2,494,954
Loss From Operations					
Before Income Taxes	(396,350)	287,653	208,190	(113,364)	(13,871)
Six Months					
Revenues	-	35,718,180	6,264,002	535,083	42,517,265
Gross Margins	-	3,895,054	1,242,388	24,751	5,162,193
Income From Operations					
Before Income Taxes	(761,673)	453,353	705,718	(313,218)	84,180

All revenue and gross margins for the periods prior to October 1, 2008 would be attributable to Mound since it was the only operating segment during the first three quarters of 2008. The expenses related to Heartland were $191,618 for the three months ended March 31, 2008 and $193,610 for the three months ended June 30, 2008. The total corporate expenses attributed to Heartland for the six months ended June 30, 2008 was $385,228.

NOTE E CONSTRUCTION NOTE

On April 9, 2009, the Company entered into a $2 million construction note with a related party bank for the construction of the future home of HS. The note bears interest at 7.75% and will be converted into a long-term note once construction is completed (not to exceed two years). At the time of conversion, the note will have a term of 20 years. The note is collateralized by the building that is being constructed.

NOTE F RECLASSIFICATIONS

Certain amounts in the June 30, 2008 financial statements have been reclassified to conform to the presentation used in the June 30, 2009 financial statements.

NOTE G SUBSEQUENT EVENTS

On August 11, 2009, the Company secured a business line of credit in the amount of $1,200,000 with Citizens Bank of New Tazewell, TN. The initial rate of interest has been set at 5% with a maturity date of August 11, 2010. The terms call for the payment of all interest on a monthly basis and payment of the principal balance at maturity.

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

The following discussion should be read in conjunction with the financial statements included in this Form 10-Q. The following discussion and analysis provides certain information, which the Company's management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition for the quarterly period ended June 30, 2009. The statements contained in this section that are not historical facts are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) 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 variati thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. From time to time, we or our representatives have made or may make forward-looking statements, orally or in writing. Such forward-looking statements may be included in our various filings with the SEC, or press releases or oral statements made by or with the approval of our authorized executive officers.

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

Overview

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

- Mound – Steel Fabrication – Primarily focused on the fabrication of metal products including structural steel, steel stairs and railings, bar joists, metal decks, and other miscellaneous steel products.
- Lee Oil – Oil Distribution – Primarily focused on the wholesale and retail distribution of petroleum products including those sold to the motoring public through our retail locations.
- Heartland Steel – Wholesale Steel – This is a startup segment of the business that we are developing into a service center for the distribution of steel products. This segment of the business will not be fully operational until later in the 2009.

Results of Operations

Six months ended June 30, 2009 as compared to the six months ended June 30, 2008

The main differences between the results of operations from the first two quarters of 2008 to the first two quarters of 2009 can be attributed primarily to the Lee Oil acquisition that took place in the fourth quarter of 2008 and the startup of operations relating to Heartland Steel. A further breakdown is provided in NOTE D – BUSINESS SEGMENTS of the financial statements.

Revenues. Revenues increased for the three months ended June 30, 2009 to $22,779,586 from $6,199,788 for the three months ended June 30, 2008. Revenues increased from $10,258,584 to $42,517,265 for the six months ended June 30,

2008 and 2009 respectively.

Cost of Goods Sold. Cost of Goods Sold increased for the three and six months ended June 30, 2009 to $20,284,632 and $37,355,072 from $5,292,264 and $8,570,489 for the three and six months ended June 30, 2008.

Gross Profit. Gross Profits increased for three months ended June 30, 2009 to $2,494,954 from $907,524 for the three months ended June 30, 2008. The gross profit for the six months ended June 30, 2009 was $5,162,193 and $1,688,095 for the six months ended June 30, 2008.

Expenses. Expenses increased for three months ended June 30, 2009 to $2,541,233 from $490,946 for the three months ended June 30, 2008. Expenses rose from $871,303 to $4,964,970 for the six months ended June 30, 2008 and 2009 respectively. In addition to the expenses attributed to the Lee Oil acquisition, the current six month period ending June 30, 2009 includes expenses related to two employment contracts. The chief operating officers of both Mound and HS were issued 750,000 shares of common shares each as an inducement to enter into long-term employment contracts. These shares were valued based on the share price on the date of authorization and expensed upon issuance. The total expense recorded was $225,000.

Other (expense) income. The interest expense recorded for the six months ended June 30, 2009 was $455,756 compared to the $26,662 expense recorded for the six months ended June 30, 2008. This was primarily attributable to the interest associated with the acquisition of Lee Oil. The interest relating to the construction of the new HS building is being capitalized until the construction is completed.

Net Income Before income Taxes. Net Income before Income Taxes decreased for the six months ended June 30, 2009 to $84,180 from $831,257 for the three months ended June 30, 2008. This decrease is primarily attributable some costs associated with the startup at Heartland Steel including the expensing of the shares associated with the chief operating officers employment contract, additional interest expense associated with the Lee Oil acquisition in the fourth quarter of 2008, and a lower gross profit from the Mound operations.

Liquidity and Capital Resources

Sources of Liquidity

As of June 30, 2009, the Company had accumulated deficit of $12,515,138. As of December 31, 2008, the Company had accumulated deficit of $12,599,401. The Company has generated a profit for the six months ended June 30, 2009.

The Company has used $558,275 in operating activities for the six months ended June 30, 2009 primarily to fund additional accounts receivable and inventory. We consider this to be normal with the price of oil and steel both rising and would expect a reversal if these prices begin to fall.

The Company has used $2,059,056 in investing activities for the six months ended June 30, 2009 primarily related to the construction of a building for the HS operations.

The Company's generated cash flow from financing activities of $1,290,584 for the six months ended June 30, 2009 primarily related to a construction loan as described in NOTE E – CONSTRUCTION NOTE of the financial statements.

Our principal source of liquidity is cash on hand and the conversion of accounts receivable into cash. We also believe cash provided from operating activities will be a positive 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 June 30, 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 to 24 months.

Due to the current price of our common stock, we do not expect to fund future projects through the issuance of shares but rather will fund such projects through cash on hand and financing, if available.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

With the participation of the Chief Executive Officer (the principal executive officer) and Chief Financial Officer (the principal financial officer); the Company’s management has evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. As of the end of the period covered by this Report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our chief financial officer concluded that our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. The ineffectiveness of our disclosure controls and procedures is the result of certain deficiencies in internal controls constituting material weaknesses as discussed below. The material weaknesses identified did not result in the restatement of any previously reported financial statements or any other related financial disclosure, nor does management believe that it had any effect on the accuracy of the Company's financial statements for the current reporting period.

The Company has limited accounting personnel with significant knowledge of generally accepted accounting principles and lacks enough segregation of duties for there to be proper internal controls over all accounting and financial reporting operations. The lack of sufficient staff with significant knowledge of generally accepted accounting principles or oversight from outside parties could result in ineffective oversight and monitoring.

The Company is currently reviewing its policies and is evaluating its disclosure controls and procedures so that it will be able to determine the changes it can and should make to make such controls more effective.

Changes in Internal Controls over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

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

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

During the quarter ended June 30, 2009, the Company issued 750,000 shares of common stock to Tom Miller, pursuant to the terms of his employment agreement and 136,362 shares of common stock to its directors.

During the quarter ended March 31, 2009, the Company issued 28,377 shares of common stock as a stock dividend, 32,410 shares of common stock for the conversion of debt and related interest, 136,362 shares as board compensation and 750,000 shares to Randy Frevert pursuant to the terms of his employment agreement.

The above securities were offered and sold to the above parties in private placement transactions made in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act of 1933 and/or Rule 506 promulgated under Regulation D thereunder. Each of the investors are accredited investors as defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

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

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

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

SIGNATURES

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

HEARTLAND, INC.
(Registrant)

Date: August 14, 2009

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

Date: August 14, 2009

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

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Depreciation	7,016,016	6,880,977	135,039	1.96%
Interest	5,877,283	5,788,702	88,581	1.53%
Amortization of acquired in-place leases and tenant relationships	13,908	65,983		

			(52,075)	(78.92)%
Total non-operating expenses	12,907,207	12,735,662	171,545	1.35%
Loss before equity in loss of Multifamily Limited Partnership and Mezzanine Loan Limited Liability Company and loss from discontinued operations	(4,112,110)	(4,335,564)	223,454	(5.15)%
Equity in loss of Multifamily Limited Partnership	-	-	-	0.00%
Equity in loss of Mezzanine Loan Limited Liability Company	-	-	-	0.00%
Discontinued operations	-	-	-	0.00%
Net loss	$(4,112,110)			

$(4,335,564)

$ 223,454

(5.15)%

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Comparison of the three months ended March 31, 2009 to the three months ended March 31, 2008

	Total Property Portfolio Three months ended March 31,			
	2009	2008	Increase/ (Decrease)	% Change
Revenue:				
Rental	$17,574,204	$15,670,578	$1,903,626	12.15%
Interest, utility reimbursement and other	1,192,777	1,158,478	34,299	2.96%
Total revenue	18,766,981	16,829,056	1,937,925	11.52%
Operating Expenses:				
Operating	5,244,283	4,662,545	581,738	12.48%
Maintenance	984,748	1,049,828	(65,080)	(6.20)%
Real estate taxes	2,081,668	1,750,881	330,787	18.89%
General and administrative	1,717,923	813,062	904,861	111.29%
Management fees	1,165,200	1,067,632	97,568	9.14%
Total operating expenses	11,193,822	9,343,948	1,849,874	19.80%
Net Operating Income	7,573,159	7,485,108	88,051	1.18%
Non-operating expenses:				
Depreciation	7,785,436	6,880,977	904,459	13.14%
Interest	6,247,309	5,758,686	488,623	8.48%
Amortization of acquired in-place leases and tenant relationships	272,189	65,983	206,206	312.51%
Total non-operating expenses	14,304,934	12,705,646	1,599,288	12.59%
Loss before equity in loss of Multifamily Limited Partnership and Mezzanine Loan Limited Liability Company and loss from discontinued operations	(6,731,775)	(5,220,538)	(1,511,237)	28.95%
Equity in loss of Multifamily Limited Partnership	(1,154,256)	(529,563)	(624,693)	117.96%
Equity in loss of Mezzanine Loan Limited Liability Company	(173,218)	-	(173,218)	100.00%
Discontinued operations	(157,969)	(528,446)	370,477	(70.11)%
Net loss	$(8,217,218)	$(6,278,547)	$(1,938,671)	30.88%

Comparison of the three months ended March 31, 2009 to the three months ended March 31, 2008
(Same Property Portfolio)

Revenue

Rental Revenue

Rental revenue of the Same Property Portfolio increased for the three-month period ended March 31, 2009 in comparison to the similar period of 2008. The increase is mainly attributable to increased occupancy as a result of the completion of the utility conversion at the Seasons of Laurel property.

Interest, utility reimbursement and other revenue

Same Property Portfolio interest, utility reimbursement and other revenues increased for the three-month period ended March 31, 2009 as compared to the three-month period ended March 31, 2008. Utility reimbursement increased slightly, mainly due to successful increases in usage of bill back programs to tenants and was partially offset by decreases in interest.

Operating Expenses

Operating

Overall operating expenses increased in the quarter ended March 31, 2009 as compared to the same period of 2008. The Company continues to realize savings from improved insurance premium levels when it renewed its property insurance coverage for the portfolio for the policy period as of May 1, 2007 when it was able to achieve modest cost reductions in premiums for its property insurance coverage. Further insurance cost reductions were achieved in 2009. The savings were partially offset by increases in some utilities, including gas and water and sewer. The Seasons of Laurel property has historically contributed significantly to the Company's overall utility expense as the electricity charges at the property have been paid by the Company and were not billed directly to tenants for usage of their apartment unit. The Company has substantially completed a project to modify the utility infrastructure to allow for direct billing of electric costs by individual apartment unit. The changes to the infrastructure was completed in the fourth quarter of 2008 with the related direct billing to tenants currently tracking to be implemented to all units by the end of 2008. As a result of the individual apartments units being migrated to a direct tenant billing, the Company has realized a reduction in electricity expense at Season's and anticipates the reductions and related comparative savings to continue going forward.

Maintenance

Maintenance expense increased slightly in the three-months ended March 31, 2009 as compared to the same period of 2008 and is due mainly to higher unit turn over costs including painting, cleaning and non-recurring repairs and maintenance in an effort to make units as attractive as possible and to maintain occupancy. Management continues to employ a proactive maintenance rehabilitation strategy at its apartment communities and considers the strategy an effective program that preserves and in some cases increases, its occupancy levels through improved consumer appeal of the apartment communities, from both an interior and exterior perspective.

Real Estate Taxes

Real estate taxes increased for the three months ended March 31, 2009 from the comparable period of 2008. The increase is due mainly to the continued escalation of assessed property valuations for other properties in the Same

Property Portfolio. The Company continually scrutinizes the assessed values of its properties and avails itself of arbitration or similar forums made available by the taxing authority for increases in assessed value that it considers to be unreasonable. The Company has been successful in achieving tax abatements for certain of its properties based on challenges made to the assessed values. The Company anticipates a continued upward trend in real estate tax expense as local and state taxing agencies continue to place significant reliance on property tax revenue.

General and Administrative

General and administrative expenses decreased in the three-month period ended March 31, 2009 compared to 2008. The overall increase is due mainly to normal operating expense fluctuations experienced throughout the properties of the Same Property Portfolio including legal expense related to tenant issues.

Management Fees

Management fees of the Same Property Portfolio increased for the three months ended March 31, 2009 compared to the same period of 2008 based on increased levels of revenue of the Same Property Portfolio. Property management fees are assessed on the revenue stream of the properties managed by an affiliate of the Company.

Non Operating Expenses

Depreciation

Depreciation expense of the Same Property Portfolio increased for the three-months ended March 31, 2009 as compared to the same period of the prior year. The increased expense is related to the additions to the basis of fixed assets in the portfolio driven by substantial rehabilitation projects ongoing at the Walden, Seasons of Laurel, Hannibal Grove, Standard of Lenox and the Hampton House properties and to a lesser degree, normal recurring capital spending activities over the remaining properties in the Same Property Portfolio.

Interest

Interest expense for the three-months ended March 31, 2009 increased slightly over the comparable period of 2008. The increase is attributable to the refinancing of mortgages on properties at an incrementally higher principal level than the related paid-off loan, with the majority of the additional debt obtained on the Seasons of Laurel property, which was partially offset by the reduced interest rate obtained on the new debt.

Amortization of acquired in-place leases and tenant relationships

Amortization of acquired in-place-leases and tenant relationships decreased significantly in the three-months ended March 31, 2009 as compared to the same period in 2008. The decrease is related mainly to the completion of amortization of the acquired-in-place lease intangible assets booked at acquisition and amortized over a 12 month period which did not extend into the three-month period ended March 31, 2009.

Comparison of the three months ended March 31, 2009 to the three months ended March 31, 2008
(Total Property Portfolio)

In general, increases in revenues, operating expenses and non-operating expenses and the related losses of the Total Property Portfolio for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008 are due mainly, in addition to the reasons discussed above, to the fluctuations in the actual properties owned, as the number of properties remained consistent, by the Company in the comparative periods presented and to the increase in the level of mortgage and revolving credit debt outstanding during the comparative periods.

Debt to Fair Value of Real Estate Assets

The Company's total debt summary and debt maturity schedule, as of March 31, 2009, is as follows:

Debt Summary

	Balance	Weighted Average Rate
Collateralized – Fixed Rate Debt	$ 438,236,619	5.68%
Collateralized – Variable Rate Debt	42,203,273	3.01%
Total - Collateralized Debt	$ 480,439,892	

Debt Maturity Summary

Year	Balance	% of Total
2009	$ 27,430,155	5.71%
2010	6,194,730	1.29%
2011	3,845,704	0.80%
2012	8,401,289	1.75%
2013	60,477,742	12.59%
Thereafter	374,090,272	77.86%
Total	$ 480,439,892	100.00%

The Company's "Debt-to-Fair Value of Real Estate Assets" as of March 31, 2009 and December 31, 2008 is presented in the following table. Fair value of real estate assets is based on management's best estimate of fair value for properties purchased in prior years or purchase price for properties acquired within the current year. As with any estimate, management's estimate of the fair value of properties purchased in prior years represents only its good faith opinion as to that value, and there can be no assurance that the actual value that might, in fact, be realized for any such property would approximate that fair value. The following information is presented in lieu of information regarding the Company's "Debt-to-Total Market Capitalization Ratio", which is a commonly used measure in our industry, because the Company's market capitalization is not readily determinable since there was no public market for its common equity during the periods presented in this report.

The Board has established investment guidelines under which management may not incur indebtedness such that at the time we incur the indebtedness our ratio of debt to total assets exceeds 75%. This measure is calculated based on the fair value of the assets determined by management as described above.

The information regarding "Debt-to-Fair Value of Real Estate Assets" is presented to allow investors to calculate our loan-to-value ratios in a manner consistent with those used by management and others in our industry, including those used by our current and potential lenders. Management uses this information when making decisions about financing or refinancing properties. Management also uses fair value information when making decisions about selling assets as well as evaluating acquisition opportunities within markets where we have assets.

"Fair Value of Real Estate Assets" is not a GAAP financial measure and should not be considered as an alternative to net book value of real estate assets, the most directly comparable financial measure calculated and presented in

accordance with GAAP. The net book value of our real estate assets was $457,612,854 and $419,002,572 at March 31, 2009 and December 31, 2008, respectively, and is presented on the balance sheet as multifamily apartment communities, net of accumulated depreciation.

The following table reconciles the fair value of our real estate assets to the net book value of real estate assets as of March 31, 2009 and December 31, 2008.

Debt-to-Fair Value of Real Estate Assets as of

	March 31, 2009	December 31, 2008
Net book value of multifamily apartment communities	$ 457,612,854	$ 419,002,572
Accumulated depreciation	144,368,315	136,678,464
Historical cost	601,981,169	555,681,036
Increase in fair value over historical cost	56,108,831	60,205,964
Fair Value – estimated	$ 658,090,000	$ 615,887,000
Mortgage Debt	$ 480,439,892	$ 432,013,999
Debt-to-Fair Value of Real Estate Assets	73.00%	70.15%

The Debt-to-Fair Value of Real Estate Assets includes the outstanding borrowings under the Company's revolving credit facility, which were $0 at March 31, 2009 and December 31, 2008. The revolving credit facility contains covenants that require the Company to maintain certain financial ratios, including an indebtedness to value ratio not to exceed 75%. If the Company were to be in violation of this covenant, we would be unable to draw advances from our line, which could have a material impact on the Company's ability to meet its short-term liquidity requirements. Further, if the Company were unable to draw on its revolving credit facility, the Company may have to slow or temporarily stop our rehabilitation projects, which could have a negative impact on its results of operations and cash flows. As of March 31, 2009 and December 31, 2008, the Company was in compliance with the covenants of the revolving credit facility. Fair value of the real estate assets is based on management's most current valuation of properties, which was made for all properties owned at December 31, 2008, acquisition cost of properties acquired subsequent to December 31, 2008, if any, and sales price of assets under contract of sale as of March 31, 2009.

Funds From Operations

The Company follows the revised definition of Funds from Operations ("FFO") adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). Management considers FFO to be an appropriate measure of performance of an equity REIT. We calculate FFO by adjusting net income (loss) (computed in accordance with GAAP, including non-recurring items), for gains (or losses) from sales of properties, real estate related depreciation and amortization, and adjustment for unconsolidated partnerships and ventures. Management believes that in order to facilitate a clear understanding of the historical operating results of the Company, FFO should be considered in conjunction with net income as presented in the consolidated financial statements included elsewhere herein. Management considers FFO to be a useful measure for reviewing the comparative operating and financial performance of the Company because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company's real estate between periods or as compared to different companies.

The Company's calculation of FFO may not be directly comparable to FFO reported by other REITs or similar real estate companies that have not adopted the term in accordance with the current NAREIT definition or that interpret

the current NAREIT definition differently. FFO is not a GAAP financial measure and should not be considered as an alternative to net income (loss), the most directly comparable financial measure of our performance calculated and presented in accordance with GAAP, as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO should be compared with our reported net income (loss) and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

The following table presents a reconciliation of net loss to FFO for the three months ended March 31, 2009 and 2008:

	Three months ended March 31, 2009		Three months ended March 31, 2008	
Net loss	$	(8,217,218)	$	(6,278,547)
Add:				
Depreciation of real property		6,801,477		5,587,439
Depreciation of real property included in results of discontinued operations		-		1,576,223
Amortization of acquired in-place leases and tenant relationships		272,189		65,983
Equity in loss of Multifamily Limited Partnership		1,154,256		529,563
Funds from operations of Multifamily Venture and Limited Venture		202,176		495,409
Less:				
Noncontrolling interest in properties share of funds from operations		(81,057)		(200,535)
Funds from Operations	$	131,823	$	1,775,535

FFO for the three months ended March 31, 2009 decreased as compared to FFO for the three month periods ended March 31, 2008. The decrease in FFO is due primarily to changes in the accounting for transaction costs under FAS 160. FAS 160 requires that costs associated with acquisition transactions be expensed in the period incurred. Prior to the implementation of FAS 160, transaction costs were capitalized and included in the depreciable basis of acquired properties. Transaction costs for the acquisition of Glo Apartments total approximately $979,094, which were included in General and Administrative expense on the Consolidated Statement of Operations. Additionally, interest expense has increased due to the addition of new mortgage debt on certain properties.

Environmental Issues

There are no recorded amounts resulting from environmental liabilities because there are no known contingencies with respect to environmental liabilities. The Company obtains environmental audits through various sources, including lender evaluations and acquisition due diligence, for each of its properties at various intervals throughout a property's useful life. The Company has not been advised by any third party as to the existence of, nor has it identified on its own, any material liability for site restoration or other costs that may be incurred with respect to any of its properties.

Inflation and Economic Conditions

Substantially all of the leases at our properties are for a term of one year or less, which enables the Company to seek increased rents for new leases or upon renewal of existing leases. These short-term leases minimize the potential adverse effect of inflation on rental income, although residents may leave without penalty at the end of their lease

terms and may do so if rents are increased significantly.

The United States is currently in the midst of what has been characterized as one of the worst recessions since the 1930's. Unemployment has risen past 8% while single family home prices have dropped leaving many homeowners with homes worth less than their mortgage balances and on the brink of foreclosure. The Company both believes and recognizes that real estate goes through cycle and while the drivers of these cycles can vary greatly from cycle to cycle, the outcome is generally the same with periods of improving values and profit growth followed by periods of stagnant or declining values and profit stagnation. The Company, however, recognizes that real estate investing requires a long-term perspective and, as history suggests, a company's ability to remain resilient during tough economic times will often lead to opportunities. In general, multifamily real estate fundamentals of well located quality real estate have remained relatively steady during the recent economic downturn. Occupancy rates continue to hover in the low to mid-90% range for well located, well managed properties though continued weakness in the economy and/or increasing unemployment rates could have a negative impact on both occupancy and rent levels. Creditworthy borrowers in the multifamily sector have continued to be able to access capital through Fannie Mae and Freddie Mac through 2008 and into early 2009 at attractive rates. Though there is no assurance that under existing or future regulatory restrictions this source of capital, unique to multifamily borrowers, will continue to be available. While the Company believes that 2009 will be a challenging year, with increased competition for price conscious residents, the possibility for continued tight credit markets and illiquidity in the transaction markets, we feel that many of our previous assumptions about future trends will be delayed for a period of time.

The Company continues to believe that projected demographic trends will favor the multifamily sector, driven primarily by the continued flow of echo boomers (children of baby boomers, age 20 to 29), the fastest growing segment of the population, and an increasing number of immigrants who are often renters by necessity. In many cases, the current economic climate has delayed many would be residents from entering the rental market and instead choosing to remain at home or to share rental units instead of renting their own space. This trend may be creating a backlog of potential residents who will enter the market as the economy begins to rebound and unemployment rates begin to trend back to historical norms. The Company's properties are generally located in markets where zoning restrictions, scarcity of land and high construction costs create significant barriers to new development. The Company believes it is well positioned to manage its portfolio through the remainder of this economic downturn and is prepared to take advantage of opportunities that present themselves during such times.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's mortgage notes are fixed rate instruments; therefore, the Company's outstanding mortgage debt is not sensitive to changes in the capital market except upon maturity. The Company's revolving credit facility is a variable rate arrangement tied to LIBOR and is therefore sensitive to changes in the capital market. The table below provides information about the Company's financial instruments, specifically debt obligations.

The table presents principal cash flows and related weighted average interest rates by expected maturity dates for the mortgage notes payable as of March 31, 2009.

	2009	2010	2011	2012	2013	Thereafter	Total
Fixed Rate Debt	$17,930,155	$3,484,730	$3,845,704	$7,770,586	$59,708,137	$345,497,307	$438,236,619
Average Interest Rate	5.22%	5.29%	5.34%	5.65%	5.05%	5.82%	5.68%

	2009	2010	2011	2012	2013	Thereafter	Total
Variable Rate Debt	$9,500,000	$2,710,000	$ -	$630,703	$769,605	$28,592,965	$42,203,273
Average Interest Rate	3.01%	3.01%	3.01%	3.01%	3.01%	3.01%	3.01%

The level of market interest rate risk remained relatively consistent from December 31, 2008 to March 31, 2009. As of March 31, 2009, $42,203,273 of the Company's debt outstanding is subject to variable interest rates. The Company's variable rate exposure is limited to 6% as the Company holds an interest rate cap contract for the related debt. The variable interest rate on the debt was 3.01% at March 31, 2009. The Company estimates that the effect of a 1% increase or decrease in interest rates would not have a material impact on interest expense.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Based on their evaluation, as required by the Exchange Act Rules 13a-15(b) and 15d-15(b), the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of March 31, 2009 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and were effective as of March 31, 2009 to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by paragraph (d) of the Exchange Act Rules 13a-15 or 15d-15 that occurred during the fiscal quarter ended March 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is currently party to a legal proceeding initiated by a seller/developer from whom the Company acquired a property in 2005. The dispute involves the interpretation of certain provisions of the purchase and sales agreement related to post acquisition construction activities. Specifically, the purchase and sales agreement provided that if certain conditions were met, the seller/developer would develop a vacant parcel of land contiguous to the acquired property with 18 new residential apartment units (the "New Units") for the benefit of the Company at an agreed-upon price. The purchase and sales agreement also provided the opportunity for the seller/developer to build a limited number of garages (the "Garages") for the existing apartment units for the benefit of the Company at an agreed-upon price.

In 2006, the Company accrued $190,000 with respect to the New Units matter based on a settlement offer extended to the plaintiff, which was not accepted at that time. On November 9, 2007, the judge issued a summary judgment against the Company with respect to the construction of the New Units. The judgment did not specify damages, which the plaintiff will be required to demonstrate at trial. On February 13, 2008, the court entered judgment related to the New Units on the seller/developer's behalf awarding them the amount of $774,292 for costs and damages. The Company believes that there are reasonable grounds for appeal of this ruling and is pursuing an appeal of the judgment awarded by the court.

As of March 31, 2009 and December 31, 2008, respectively, the Company did not increase its accrual of $190,000 related to the New Units matter as it is moving forward with an appeal of the judgment awarded by the court. Based on the court's award of damages in the amount of $774,292, if the appeal were to be unsuccessful, the Company would record an additional cost of $584,292 related to the New Units matter, the amount in excess of the $190,000 accrued as of March 31, 2009. As a condition of the appeals process, the Company was required to post an appeals bond with the court. The bond is backed by a letter of credit in the amount of $800,000 and is reflected as restricted cash on the balance sheet as of March 31, 2009.

The Company and our properties are not subject to any other material pending legal proceedings.

Item 1A. RISK FACTORS

Please read the risk factors disclosed in our Annual Report on Form 10-K for the Company's fiscal year ended December 31, 2008 as filed with the SEC on March 31, 2009. As of March 31, 2009, except for the additional risks associated with the tightening of the credit markets, there have been no material changes to the risk factors as presented therein. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our financial condition and/or operating results.

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

- None

Item 3. DEFAULTS UPON SENIOR SECURITIES

- None

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

- None

Item 5. OTHER INFORMATION

- None

Item 6. EXHIBITS

31.1	Certification of Principal Executive Officer Pursuant of 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer Pursuant of 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer Pursuant of 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BERKSHIRE INCOME REALTY, INC.

May 15, 2009	/s/ David C. Quade David C. Quade President, Chief Financial Officer and Principal Executive Officer
May 15, 2009	/s/ Christopher M. Nichols Christopher M. Nichols Vice President and Principal Accounting Officer