UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WISCONSIN

JOSEPH WHITE,	:	
Plaintiff,	:	Case No. 00-C-1388
v.	:	
HEARTLAND HIGH-YIELD MUNICIPAL BOND FUND, et al.	:	
Defendants.	:	

Consolidated Case Numbers:

00-C-1401	00-C-1404	00-C-1413	00-C-1419
00-C-1421	00-C-1424	00-C-1431	00-C-1443
00-C-1459	00-C-1460	00-C-1468	00-C-1471
00-C-1496	00-C-1498	00-C-1518	00-C-1539
00-C-1573	00-C-1594	01-CV-139	

CONSOLIDATED AMENDED CLASS ACTION COMPLAINT

This Complaint is filed pursuant to the Scheduling Order entered by the Court on October 1, 2001. Lead Plaintiffs, by and through their undersigned attorneys, bring this action upon personal knowledge as to themselves and their own acts, and upon the investigation by and through Plaintiffs' counsel, including without limitation, analysis of publicly available news articles and reports, public filings with the Securities and Exchange Commission ("SEC") and annual and semi-annual reports issued by and on behalf of the Heartland High-Yield Municipal Bond Fund ("Longer Duration Fund"), the Heartland Short Duration High-Yield Municipal Fund ("Short Duration Fund") (collectively "the Funds"), Heartland Group, Inc., Heartland Advisors, Inc., and the Individual Defendants, statements of additional information disseminated by the Funds during the class period, reports and opinions issued by PricewaterhouseCoopers, accounting and auditing authorities, review of various web sites and Internet information sources, news reports, press releases and other matters of public record. Plaintiffs believe that further substantial evidentiary support will exist for the allegations set forth below after reasonable opportunity for discovery.

This Complaint names as Defendants the Heartland Group, Inc., but not the Heartland High-Yield Municipal Bond Fund and the Heartland Short Duration High-Yield Municipal Fund. Pursuant to the Order entered by the District Court for the Northern District of Illinois on March 21, 2001, which Order authorized the SEC to seize the assets of those Funds, and stayed litigation "affecting the Funds" but not Heartland Group, Plaintiffs and the class reserve any and all rights to assert claims against the Funds themselves in the event that the receiver commences litigation and obtains a recovery that increases the aggregate net assets of the Funds.

NATURE OF THE ACTION

1. This is a class action brought on behalf of all purchasers of shares in the Funds during the period October 26, 1997 through October 16, 2000 (the "Class Period").

2. The Funds are open-ended mutual funds issued by the Heartland Group, Inc. ("Heartland"), an investment company registered under the Investment Company Act of 1940. During the Class Period, Heartland, through Defendant Heartland Advisors, the distributor of the Funds, conducted a continuous public offering of the Funds' shares which it sold and redeemed daily at what was purportedly the Funds' respective net asset values ("NAV").

3. The shares of the Funds were issued pursuant to prospectuses filed as part of registration statements with the SEC commencing with a prospectus and registration statement dated January 2, 1997. In addition, annual and semi-annual reports were distributed to shareholders throughout the Class Period.

4. On October 16, 2000, Defendant Heartland Advisors, Inc., which managed the Funds, shocked the Funds' shareholders and the investing public by announcing that it had drastically written down the net asset values of the Funds on October 13, 2000, reducing the stated NAV of the Longer Duration Fund from $8.01 per share to $2.45 per share, and the stated NAV of the Short Duration Fund from $8.70 per share to $4.87 per share. In a Prospectus Supplement, dated October 16, 2000, it reported that it had adopted "fair value procedures consistent with the Investment Act of 1940, and pursuant to pricing policies and procedures adopted by the board of directors." In a letter written to the shareholders of the Funds, also dated October 16 but apparently mailed at a later date, Defendant William Nasgovitz, President of Heartland Advisors, Inc., attributed the write-down to what he asserted was the "current" lack of liquidity in the high-yield municipal bond markets generally, credit quality concerns and a lack of market makers, market bids and representative market transactions in the Funds' securities which had purportedly led to the change in the method of valuing the Funds' portfolios.

5. In fact, as alleged in more detail below, the October 13 write-down was caused not by the impact of market factors which suddenly and adversely affected the value of the Funds' portfolios or the liquidity of its holdings. The failure of external market forces to explain the write-down was immediately brought home by the financial press. On October 25, 2000, an article in the Wall Street Journal rejected the central thesis of the Nasgovitz October 16 letter, pointing out that other managers of high yield municipal bond funds had not seen any sort of wide-spread deterioration in either the liquidity or credit quality of such bonds. The same article described a review conducted of the mid-2000 portfolio holdings of the Longer Duration Fund by J.J. Kenny, a unit of Standard & Poors, that prices such securities. According to the article, at the request of the

Wall Street Journal, J.J. Kenny had examined the market values for seven bonds listed in the Longer Duration Fund's June 30, 2000 shareholder report and found the prices listed in that report to be 60 to 115 percent higher than the prices that Kenny had given to other funds or institutional investors on the same date for the same bonds.

6. On October 19, 2000, a Wall Street Journal article quoted a municipal bond strategist at a prominent brokerage firm as stating that there had been no discernable depreciation in credit quality or market values in mainstream high-yield municipal credits.

7. On March 21, 2001, the SEC obtained an order from the United States District Court for the Northern District of Illinois authorizing it to seize the assets of the Longer Duration Fund, the Short Duration Fund, and the Heartland Taxable Short Duration High-Yield Municipal Fund and placing the assets of all three Funds in receivership with the authority ultimately to liquidate the Funds' holdings for the benefit of shareholders (the "Seizure Order" or "Order"). The Order also prohibits Fund shareholders from prosecuting actions against the Funds but did not prohibit filing actions against them for the purpose of tolling applicable statutes of limitation. The Order was sought and obtained by the SEC on the grounds that the Funds were unable to provide the shareholders or the SEC with audited financial statements in a timely manner. The SEC action and the Seizure Order were not opposed by the Funds, by Heartland Group or the directors of the Funds. Rather, the seizure of the Funds' assets was voluntarily consented to by Heartland Group and approved by its board of directors which, in effect, welcomed such a seizure.

8. In a February 21, 2001 letter written to the SEC, the Funds stated that its auditors "had concerns as to their ability to determine whether or not the values utilized by the Funds during fiscal year 2000 (January 1 to December 31) were reasonable." The same letter, which sought SEC

permission for the Funds to suspend the shareholders' ability to redeem shares, stated that "its directors were on the verge of resigning from all of the Heartland Group's Funds due to the possibility that they could face personal liability for any redemption of the Funds' shares made under the circumstances" of not having audited financial statements.

9. In its motion papers seeking the Seizure Order, the SEC stated that the order was necessary because the shareholders of the Funds were "redeeming shares without the benefit of annual reports containing audited figures regarding the valuations of the Funds and the Funds' securities." Upon entry of the Order, Heartland's chief operating officer, Paul Beste, was quoted as stating that "we think this has the potential to offer a fair and equitable solution for all shareholders," thus acknowledging that the management of the Funds was unable to protect the interests of the shareholders.

10. Throughout the Class Period, the Funds' shares were offered to the public and redeemed on a daily basis despite the fact that Heartland Advisors, Inc., the Funds, and the Individual Defendants were unable to determine on a daily basis the value of the Funds' assets and hence the NAV of the Funds' shares on such days as required by the Investment Company Act of 1940. Throughout the Class Period in public filings and in annual and semi-annual reports to the Funds' shareholders, the Defendants made omissions and misstatements of material fact concerning the Funds and their assets as set forth in this Complaint, and failed to describe accurately the risks involved in owning shares of the Funds, including the risks posed by illiquidity and uncertain valuation of the Funds' assets. In addition, in the Funds' public filings and reports to shareholders Defendants repeatedly stated that no more than 15% of the Funds' net assets would be invested in illiquid securities -- defined as securities which could not be sold in the ordinary course of business

within seven days at a price approximating the value at which the security is carried by a Fund. That representation was false. In fact, throughout the Class Period substantially more than 15% of the Funds' net assets were invested in such securities.

11. As described more fully in & 49, on May 30, 2001, the Receiver in the Seizure Action filed an Amended Inventory of the assets of the Longer Duration Fund, the Short Duration Fund and the Heartland Taxable Short Duration Fund. The inventory revealed that by Heartland's own assessment, 12 out of 21 of the municipal bonds in the Longer Duration Fund and nine out of 12 of the municipal bonds in the Short Duration Fund were "illiquid."

12. Throughout the Class Period, Defendant PricewaterhouseCoopers, LLP ("PwC"), a national public accounting and auditing firm, audited the Funds' financial statements and owed duties to the Funds' shareholders and the investing public with respect to its activities as the Funds' auditor. As more fully set forth in this Complaint, had PwC carried out its duties properly in connection with the audits of the financial statements of the Funds for the fiscal years ending December 31, 1997, 1998 and 1999, it would have ascertained that management of the Funds, including Defendant Heartland Advisors and the Individual Defendants, was not properly pricing the securities contained in the Funds' portfolios, was engaged in prohibited transactions, and was otherwise violating its duties with respect to the management of the Funds' assets.

13. In addition, with respect to such audits and the annual reports and other documents filed with the SEC by the Funds on March 2, 1998, March 5, 1999 and March 3, 2000, PwC represented that the Funds' statements of assets and liabilities, operations, and changes in net assets and financial highlights presented fairly in all material respects the financial positions of the Funds and their operations based upon their audits which had been conducted in accordance with generally

accepted auditing standards. In fact, these representations were false and misleading because the audits were not conducted in accordance with generally accepted auditing standards and the Funds' financial statements were not presented in accordance with generally accepted accounting principles, as alleged in detail in this Complaint.

14. As a consequence of the Defendants' wrongdoing as alleged herein, Plaintiffs and members of the class were caused to purchase shares of the Funds during the Class Period and were harmed thereby.

JURISDICTION AND VENUE

15. This action arises under the Securities Act of 1933 as amended, 15 U.S.C. ' 77a et seq. (the "Securities Act"), in particular under ' ' 11, 12(a)(2) and 15, 15 U.S.C. ' ' 77k, 77l(a)(2) and 77o; and the Investment Company Act of 1940 ("ICA"), as amended, 15 U.S.C. ' ' 80a et seq., in particular under ' ' 22, 34(b) and 47(b), 15 U.S.C. ' ' 80a-22, 80a-33(b) and 80a-46b.

16. Venue is proper in this Judicial District pursuant to ' 22 of the Securities Act, 15 U.S.C. 77v, ' 44 of the ICA, 15 U.S.C. ' 80a-43, and under 28 U.S.C. ' 1391(b) because Defendants The Heartland Group, Inc., Heartland Advisors, Inc., Heartland Holdings, Inc., the Individual Defendants and PricewaterhouseCoopers, LLP, have a principal place of business in this district. Many of the acts complained of, including the dissemination of false and misleading prospectuses, annual and semi-annual reports to shareholders and other information and the faulty audits of the Funds' financial statements occurred in this Judicial District.

17. The Defendants used the means and instrumentalities of interstate commerce, the United States mails, the facilities of the national securities markets and telephones in connection with perpetrating the violations of law complained of in this Complaint.

THE PARTIES

18. Lead Plaintiffs, Walter T. Kirkbride, Michael J. Evans as Trustee of the Michael J. Evans Revocable Trust, and Richard J. Gainey, M.D. and Fionnuala Ann Gainey, M.D., purchased shares of the Funds during the Class Period and were damaged thereby. Plaintiff Kirkbride purchased certain of his shares individually and others on behalf of the Walter T. Kirkbride Living Trust of which he is sole beneficiary and a Trustee. These Plaintiffs were appointed by the Court as Lead Plaintiffs pursuant to an Opinion and Order dated March 27, 2001. Additional Plaintiffs Arthur Burrows, J. Howard Jenks purchased shares of the Longer Duration Fund in April, 1998, and May and October 1998, respectively. Additional Plaintiff, John Lindert, purchased shares of the Longer Duration Fund in October, 1998 and throughout the year 2000. Each Plaintiff suffered substantial economic losses as a result of Defendants' conduct as alleged in this Complaint.

19. Defendant, The Heartland Group, Inc., is a Maryland corporation. It is and was during the Class Period the issuer of a series of shares of common stock, each of which series is a registered investment company, including The Heartland High-Yield Municipal Bond Fund, an open-end fund whose stated investment objective was to maximize after-tax total return by investing for a high level of federally tax exempt current income, and the Heartland Short Duration High-Yield Municipal Fund, whose stated investment objective was a high level of federally tax exempt current income with a low degree of share price fluctuation.

20. Defendant Heartland Advisors, Inc. ("Heartland Advisors" or "Advisors") is a Wisconsin corporation. It is and was during the Class Period a registered investment adviser pursuant to the Investment Adviser's Act of 1940, 15 U.S.C. ' ' 80b-1 et seq., and the investment adviser and administrator of the Funds. During the Class Period, subject to the authority and

supervision of Heartland Group's Board of Directors, Advisors provided the Funds with investment advisory and administrative services under an advisory agreement. Advisors was also the distributor of the Funds' shares. Heartland Advisors was purportedly reorganized on or about August 3, 2000, at which point it purportedly became a wholly-owned subsidiary of Defendant Heartland Holdings. Prior to that date, Heartland Advisors was owned directly by its employees, who are believed to have included certain of the Individual Defendants. Heartland Group, Holdings, Advisors, and the Individual Defendants identified in && 21-28 below are sometimes referred to as "the Heartland Defendants."

21. Defendant William J. Nasgovitz is and was during the Class Period a director and president of Heartland Group, Inc., and is a resident of Wisconsin. Defendant Nasgovitz also is and was during the Class Period president, chief operating officer and a director of Heartland Advisors, Inc.

22. Defendant Hugh F. Denison is and was during the Class Period a director of Heartland Group, Inc., and is a resident of Wisconsin.

23. Defendant Jon D. Hammes is and was during the class Period a director of Heartland Group, Inc., and is a resident of Wisconsin. In addition, Defendant Hammes' company owns the building which housed some or all of Heartland's operations during the Class Period. Heartland is the anchor tenant of the building.

24. Defendant A. Gary Shilling is and was during the Class Period a director of Heartland Group, Inc., and is a resident of New Jersey.

25. Defendant Allan H. Stefl is and was during the Class Period a director of Heartland Group, Inc., and is a resident of California.

26. Defendant Linda F. Stephenson is and was during the class Period a director of Heartland Group, Inc., and is a resident of Wisconsin.

27. Defendant Thomas J. Conlin was, until his September 28, 2000 resignation, the portfolio co-manager of the Funds and is a resident of Wisconsin.

28. Defendant Greg D. Winston was the portfolio co-manager of the Funds and is a resident of Wisconsin.

29. Each of the above-named individual officers and directors of the Heartland Group and/or the Funds ("Individual Defendants") was involved in managing the business of the Funds, or overseeing the management of the Funds' business, including either establishing policy and/or making and/or supervising investment decisions and other management decisions on behalf of the Funds. Each of them, together with Advisors, had, and exercised, power and influence over the Heartland Group and the Funds and either caused the conduct complained of herein or failed to prevent such conduct when they had both the power and duty to do so and were, therefore, controlling persons of the Heartland Group and the Funds.

30. The Funds are open-ended mutual funds and are separate series of such Funds issued by Heartland Group. Prior to the Seizure Order, Heartland Group and Advisors, the Funds' distributor, conducted a continuous public offering of the Funds' shares which were sold and redeemed at their advertised NAV. The Funds paid dividends monthly, and, unless a shareholder elected to have the dividends paid to them in cash, they were automatically reinvested in additional Fund shares for the shareholder's account.

31. Defendant PricewaterhouseCoopers ("PwC"), a limited liability partnership, is a national public accounting and auditing firm with one of its several principal places of business in

Wisconsin. During the Class Period, PwC audited the Funds' annual financial statements, reviewed the Fund's semi-annual financial statements, issued reports on the Funds' internal controls, and read the Funds' prospectuses and each amendment thereto and affirmed the financial information therein to the extent that such information was derived from the Funds' audited financial statements. At all relevant times, PwC held itself out as possessing special expertise in the auditing of financial statements of, and the management of, registered investment companies such as the Funds.

32. The Defendants either:

1. participated, directly or indirectly, in the wrongful conduct alleged herein;

2. combined and conspired in a common course of conduct to engage in the wrongful transactions and dealings alleged herein;

3. knew, or in the exercise of reasonable care, should have known, of the misrepresentations and omissions of material facts, or recklessly caused such misrepresentations or omissions of material facts to be made; or

4. benefitted from the wrongful conduct alleged; and

5. were involved and participated in drafting, producing, reviewing, certifying, approving, filing with the SEC and/or disseminating the false and misleading statements and information alleged in this Complaint and approved or ratified these statements in violation of the Securities Act and the ICA.

CLASS ACTION ALLEGATIONS

33. Plaintiffs bring this action as a class action pursuant to Fed. R. Civ. P. 23(a) and (b)(3) on behalf of all purchasers of shares in the Funds (the "Class") from October 26, 1997 through October 16, 2000 (the "Class Period"). The class includes all purchasers who purchased shares in the Funds either directly or by dividend re-investment. Excluded from the Class are the named Defendants and members of their immediate families, all officers and directors of the Defendants and any entity in which a Defendant has a controlling interest, as well as the legal representatives, heirs, successors or assigns of any such party.

34. The members of the Class are so numerous that joinder of all members is not practicable. Although the exact number of Class members is currently unknown to Plaintiffs, during the class period the Funds had millions of shares outstanding owned by thousands of individual shareholders who are located throughout the United States.

35. The claims of the named Plaintiffs are typical of the claims of the Class because Plaintiffs and all Class members were harmed by the same common course of unlawful conduct alleged in this Complaint.

36. The named Plaintiffs will adequately protect the interests of the Class members and have retained legal counsel who are experienced and competent in securities litigation and class actions. The named Plaintiffs have no interests which conflict with or are contrary to the interests of the Class. Furthermore, the prosecution of individual actions by Class members would create the risk of inconsistent adjudications with regard to the subject matter of the action, which adjudications might establish incompatible standards of conduct for the Defendants.

37. A class action is superior to all other available means for the speedy, fair and efficient determination of this controversy. Plaintiffs know of no difficulty to be encountered in the management of this class action which would preclude its maintenance as such.

38. Questions of law and fact which are common to Plaintiffs and the members of the Class predominate over any questions which may affect only individual Class members because the common course of unlawful conduct described in this Complaint was directed at and harmed the entire Class. Among the questions of law and fact common to the class are the following:

1. Whether Defendants violated ' ' 11, 12 and 15 of the Securities Act and ' ' 22 and 34(b) of the ICA as alleged herein;

2. Whether in documents disseminated to the investing public and the Funds' shareholders, and filed with the SEC during the Class Period, Defendants omitted and/or misrepresented material facts about the value and credit quality of the Funds' assets, the Funds' pricing, the Funds' valuation practices, the illiquidity of the Funds' assets, and the risks involved in owning the Funds' shares, including risks posed by illiquidity, valuation uncertainty, and the failure to price all of their securities daily, as alleged herein;

3. Whether registration statements issued and amended by the Funds during the Class Period were false and misleading as alleged herein;

4. Whether the Funds were not managed in a manner consistent with their stated investment policies and restrictions as alleged herein;

5. Whether the Defendants engaged in, or failed to identify, portfolio transactions which were inconsistent with the Funds' investment policies and restrictions and which violated the ICA as alleged herein;

6. Whether PwC failed to identify portfolio transactions that were inconsistent with the Funds' investment policies and restrictions and that violated the ICA and failed to advise the Funds' board of directors of such matters and, if curative action was not taken, failed to disclose such matters to the Funds' shareholders and prospective shareholders and the SEC as alleged herein;

7. Whether PwC conducted its audits of the Funds' financial statements during the Class Period in accordance with generally accepted auditing standards;

8. Whether the Funds' annual financial statements were presented in accordance with generally accepted accounting principles;

9. Whether the value of certain of the Funds' assets and, accordingly, the Funds' net asset value, was uncertain;

10. Whether the Defendants failed to properly value certain of the funds' assets and failed to adhere to required and disclosed valuation procedures;

11. Whether the Funds' managers and the Individual Defendants did not price all of the assets of the Funds on a daily basis and whether they violated the ICA by issuing and redeeming shares in the Funds on days when they did not price all of the Funds' assets;

12. Whether the named Plaintiffs and the other members of the class are entitled to rescind their purchases of the Funds' shares during the Class Period;

13. Whether Plaintiffs and the other members of the class have sustained damages as a result of the disclosure deficiencies and other unlawful conduct alleged herein; and

14. If Plaintiffs and the other members of the Class have been so damaged, what the proper measure of damages is.

SUBSTANTIVE ALLEGATIONS

39. The Funds were opened on or about January 2, 1997. The Funds' shares were issued pursuant to prospectuses included as part of registration statements filed with the SEC. The first registration statement relating to the Funds became effective on January 2, 1997. It was amended on at least the following dates: May 30, 1997, June 30, 1997, May 1, 1998, November 25, 1998, February 23, 1999, May 1, 1999, November 15, 1999, December 6, 1999, May 1, 2000, June 9, 2000, August 11, 2000, September 28, 2000, October 16, 2000, November 14, 2000, February 16, 2001, and March 1, 2001.

40. On September 29, 2000, Defendant Heartland Holdings entered into a highly unusual transaction with the State of Wisconsin Investment Board ("SWIB") under which the Funds and certain other accounts managed by Heartland Advisors sold certain of the bonds held in their portfolios to SWIB for the price of $8.3 million. Although the details of the transaction have never been fully disclosed by Holdings or the Defendants, under the terms of the deal, SWIB was given the right to "put" the bonds back to Heartland Holdings at a price that guaranteed to SWIB 20% annual interest return totaling $3.3 million over two years (the "PUT" transaction). The 20% return was guaranteed by Holdings and Defendant Nasgovitz, personally. The transaction took place after Defendant John Hammes, the chairman of SWIB as well as a director of Advisors, suggested that Nasgovitz contact SWIB to determine whether SWIB would be willing to purchase certain bonds held by the Funds.

41. Although the Defendants have refused to provide full details concerning the "PUT" transaction (such as the identity of the bonds involved), it has since been disclosed in press reports that included among the bonds sold to SWIB on September 29, 2000 was a block of 1998 revenue bonds issued by the Illinois Health Facilities Authority ("IHFA") for a nursing home project run by

California-based Heritage Housing Development Inc. According to a June 8, 2001 article in the Bond Buyer, the IHFA bonds were priced by Interactive Data/Financial Times Information, the pricing service used by Heartland, at $75.00 per unit prior to September 28, 2000. On September 29 the same bonds were priced by Interactive at $45.00 per unit.

42. On October 16, 2000, Defendant Heartland Advisors, Inc. announced that on October 13, it had drastically written down the net asset value of the Funds, reducing the stated NAV of the Longer Duration Fund from $8.01 per share to $2.45 per share, and the stated NAV of the Short Duration Fund from $8.70 per share to $4.87 per share. These extraordinary losses in share value were caused not by economic or market forces, but by the failure of the Funds to have previously complied with required and disclosed procedures relating to the manner in which the Funds assets were invested, the frequency of pricing their assets, the valuation procedures used to price their assets, and the failure to disclose such breaches and failures.

43. The Funds were perceived not to be exposed to the sort of catastrophic losses which investors in them suffered on October 13, 2000. Morningstar, Inc., which rates the performance of mutual funds on a purportedly risk-adjusted basis, awarded each Fund Five Stars, its highest possible rating, for the three year period ending December 31, 1999, a fact that Advisors and Heartland Group highlighted in the Funds' Report to Shareholders for the year ended December 31, 1999, which report was distributed to the Funds' shareholders and prospective shareholders during 2000.

The Funds Did Not Limit Their Investments in Illiquid and B- Securities, As They Said They Would

44. Prior to April 28, 1999, the Funds were subject to a "fundamental" investment restriction pursuant to which the Funds were prohibited from investing more than 15% of their net assets in illiquid securities. A "fundamental" investment policy or restriction is one that cannot be

changed without shareholder approval. A violation of a "fundamental" investment policy or restriction is a violation of section 13 of the ICA.

45. At the Funds' shareholders meeting on April 28, 1999, the Funds' shareholders were asked to approve a change to the Funds' fundamental investment restriction relating to the 15% limitation on illiquid securities. The Funds' shareholders approved the proposed change.

46. The SEC has recommended that registered investment companies not invest more than 15% of their portfolios in illiquid securities. The Funds repeatedly stated in their prospectuses that "[n]o Fund will invest more than 15% of its net assets in illiquid securities." This language was contained in the initial prospectus for the Longer Duration Fund and Short Duration Funds dated January, 1997. The same language was repeated in the same or virtually the same words in each prospectus issued throughout the Class Period.

47. The Funds continued to state, in their prospectuses issued after the April 28, 1999 shareholders' meeting, that they would limit their investments in illiquid securities to 15% of their respective portfolios. The May 1, 1999 prospectus stated: "Neither Fund will invest more than 15% of its net assets in illiquid securities. For purposes of applying this limitation, an 'illiquid security' means one that may not be sold or disposed of in the ordinary course of business within seven days at a price approximating the value at which the security is carried by a Fund." The May 1, 2000 prospectus contained similar language.

48. Many, if not most or all, of the high-yield municipal bonds in which the Funds invested, which substantially exceeded 15% of each Fund's net assets, did not regularly trade or were thinly traded. Such securities were, at the time they were purchased by the Funds and during the time

they were held by the Funds, illiquid. Accordingly, the investments by the Funds in illiquid securities substantially exceeded 15% of their respective net assets.

49. On May 30, 2001, the receiver in the SEC seizure action filed an Amended Inventory of the assets of the Longer Duration Fund, Short Duration Fund and the Heartland Taxable Short Duration Fund. That Inventory revealed that, by Heartland's own assessment, 12 out of 21 of the municipal bonds in the Longer Duration Fund and nine out of 12 of the municipal bonds in the Short Duration Fund were "illiquid." The illiquid bonds in the Longer Duration Fund included the following:

Bond	Face Value
Worth, Illinois Nursing Home Revenue Bonds (Belhaven Convalescent Home) Maturity 12/15/27	$3,950,000
Jackson County, Missouri Industrial Development Authority Bonds (Santa Fe Village) Maturity 7/1/19	$1,350,000
Jackson County, Missouri Industrial Development Authority Bonds (Santa Fe Village) Maturity 7/1/29	$150,000
Franklin County Ohio Hospital FACS Bonds (Worthington Christian Village) Maturity 6/1/10	$365,000
Franklin County Ohio Hospital FACS Bonds (Worthington Christian Village) Maturity 6/1/10	$675,000
Tulsa County, Oklahoma Industrial Authority (1st Mortgage Multifamily Housing) Maturity 12/1/27	$3,000,000

Tulsa County, Oklahoma Industrial Authority (Tulsa-American Housing Foundation Apts.) Maturity 3/1/29	$3,500,000
Westmoreland County, Pennsylvania General Purpose Authority Revenue Bonds (Lancaster Energy Partners) Maturity 1/1/08	$1,600,000
Tarrant County, Texas Health Facilities Development Corporation Bonds (Westchester Retirement Communities) Maturity 8/1/25	$3,750,000
Wisconsin Health & Educational Facilities Authority Bonds (Benchmark Healthcare of Wisconsin) Maturity 10/15/26	$1,535,000
Wisconsin Health & Educational Facilities Authority Bonds (Benchmark Healthcare of Wisconsin) Maturity 5/1/27	$2,430,000
Wisconsin Health & Educational Facilities Authority Bonds (Benchmark Healthcare of Wisconsin) 12/1/28	$580,000

The Illiquid Bonds in the Short Duration Fund included the following:

Bond	Face Value
Worth, Illinois Nursing Home Revenue Bonds (Belhaven Convalescent Center) Maturity 12/15/07	$2,185,000
Tulsa County, Oklahoma Industrial Authority (1st Mortgage Multifamily Housing) Maturity 12/1/17	$1,065,000
Tulsa County, Oklahoma Industrial Authority (Tulsa-American Housing Foundation Apts.) Maturity 3/1/20	$5,135,000

Allegheny County Pennsylvania Industrial Development Authority Revenue Bonds (Lanchester Energy Partners) Maturity 1/1/05	$6,400,000
Westmoreland County, Pennsylvania Industrial Development Authority Revenue Bonds (Lanchester Energy Partners) Maturity 1/1/05	$3,600,000
Tarrant County, Texas Health Facilities Development Corporation Bonds (Westchester Retirement Communities) Maturity 8/1/28	$5,345,000
Wisconsin Health & Educational Facilities Authority Bonds (Benchmark Healthcare of Wisconsin) Maturity 10/15/26	$2,455,000

With the help of a bond specialist, the Receiver was able to estimate the value of 25 of the 46 bonds in the Funds' portfolios. The estimates are based upon the financial performance of the nursing homes or other projects financed by the bonds. The Receiver has issued subpoenas to the bond borrowers or trustees for information in order to value the remaining bonds.

50. PwC knew, or should have known, of the illiquid nature of the high-yield municipal bonds that dominated the Funds' portfolios. AICPA Statement of Position ("SOP") 93-1, which provides guidance to auditors on financial accounting and reporting by registered investment companies for high-yield municipal bonds of the type in which the Funds invested, says the following about the liquidity of such securities:

1. The market for such securities "may not always be liquid."

2. "The market risk is often heightened by the absence of centralized high-yield bond exchanges and relatively thin trading markets, which make it more difficult to liquidate holdings quickly and increases the volatility of the market price."

3. "Market-value risk for holders of high-yield debt securities is compounded by the relatively thin trading market in such securities, which increases price volatility and makes it difficult to liquidate holdings efficiently at any specific time. Determination of market prices is difficult given the illiquid or sometimes nonexistent trading market."

51. The Funds disclosed that they would limit their investments in securities rated below "B-" to 20% of their portfolio. While bonds *rated* below B- may have been so limited, high-yield municipal bonds that were *unrated* -- but were nevertheless of below B- quality -- substantially exceeded this limit.

<u>The Funds' Uncertain Net Asset Value</u>

52. Investment companies such as the Funds report their investment securities at value, which is defined as the quoted market price for securities for which market quotations are readily available, or, if market quotations are not readily available (where the fund is permitted to invest in securities for which market quotations are not readily available), an estimate of value (fair value) as determined in good faith by the board of directors.

53. The Funds repeatedly disclosed that they adhered to this practice. For example, in their December 31, 1999 annual report to shareholders and again in their June 30, 2000 semi-annual report to shareholders, in the footnotes to the financial statements, the Funds disclosed the following accounting policy:

> Debt securities are stated at fair value as furnished by independent pricing services based primarily upon information concerning market transactions and dealer

> quotations for similar securities, or by dealers who make markets in such securities. . . . . Securities and other assets for which quotations are not readily available are valued at their fair value using methods determined by the Board of Directors.

54. In their prospectus dated June 6, 2000, the Funds said:

> Portfolio securities are valued on the basis of market quotations or at fair value using methods determined by Heartland's Board of Directors. The Funds use a "fair value" methodology to value securities for which market quotations are not readily available. Fair values of debt securities are normally determined by using valuations furnished by one or more pricing services approved by Heartland's Board of Directors.

55. In a prospectus supplement filed with the SEC by the Funds on October 16, 2000, the Funds disclosed the following:

> Beginning on October 13, 2000, each of the Taxable Short Duration Municipal Fund, the Short Duration High-Yield Municipal Fund and the High-Yield Municipal Bond Fund began pricing its portfolio securities and determining its daily net asset value based upon fair value pricing procedures consistent with the Investment Company Act of 1940 and pursuant to pricing policies and procedures approved by the Board of Directors. A pricing committee appointed under these procedures prices the Funds' portfolio securities on each trading day and determines the per share net asset value of each of the Funds. To establish net asset values, the pricing committee ordinarily relies on securities prices provided by an independent pricing service. However, because of a current lack of liquidity in the high-yield municipal bond markets generally, and because of credit quality concerns and a lack of market makers, market bids and representative market transactions in the specific types of securities held by the Funds, the pricing committee presently is considering factors and information in addition to prices provided by the independent pricing service in order to assess the current fair value of the Funds' securities.

56. By letter to the Funds' shareholders on October 16, 2000, Defendant Nasgovitz stated the following:

> Because of a current lack of liquidity in the high-yield municipal bond markets generally, and due to credit quality concerns and a lack of market makers, market bids and representative market transactions in Funds' securities, the Funds decided to change the method by which they value their portfolios.

The letter further explained that the Funds had previously relied on an independent pricing service and that the Funds had decided to utilize "fair value" pricing to permit the factors enumerated in the letter, including, *inter alia*, the lack of liquidity and credit quality concerns, to be considered in assessing the current value of the Funds' portfolio securities.

57. Defendant Nasgovitz has admitted that prior to the valuation of the Funds' portfolios as of October 13, 2000, the Funds did not take into account the lack of liquidity of the high-yield municipal bonds held by the Funds, credit quality concerns relating to such bonds, or the lack of market makers and the lack of market bids, in valuing such bonds.

58. According to the accounting/valuation policy repeatedly disclosed in the Funds' annual and semi-annual reports to the Funds' shareholders and prospectuses during the Class Period, as quoted above, the Funds had previously represented throughout the Class Period that they were utilizing "fair value pricing" procedures whenever the occasion demanded it (e.g., as to securities for which market quotations were not readily available), which procedures included taking into account relevant factors in valuing the Funds' portfolios, such as the lack of liquidity, credit quality concerns and the lack of market makers and market bids.

59. Based on the October 16th prospectus supplement and the Nasgovitz October 16th letter, the Funds were not, prior to October 13, 2000, using fair value pricing, even though they said they would do so when market quotations were not readily available, and were not taking into account relevant factors in valuing the Funds' portfolio, such as the lack of liquidity, credit quality concerns and the lack of market makers and market bids.

60. The conditions in the municipal bond market in October 2000 were not materially different from what they had been previously during the Class Period or, specifically, from what

they were on December 31, 1998 and December 31, 1999, the dates as of which the Funds' financial statements were stated, or the dates on which PwC issued its reports on the Funds' 1998 and 1999 annual financial statements, or on the dates on which PwC completed its work in connection with the Funds' semi-annual reports during the Class Period, or on the dates as of which PwC completed its work in connection with the filing of amendments to the Funds' registration statement during the Class Period. A *Wall Street Journal* article, dated October 25, 2000, reported that J. R. Rieger, vice president of evaluations at J. J. Kenny, a unit of Standard & Poor's that is a widely used pricing service for bonds, and some other managers of municipal bond funds said that they had not seen a significant deterioration in the credit quality of, or in the liquidity in the market for, such bonds.

61. In the same *Wall Street Journal* article, it was reported that J.J. Kenny had, at the *Journal's* request, examined the prices for seven of the high-yield municipal bonds listed in the Longer Duration Fund's June 30, 2000 semi-annual shareholder report and found that the prices of those bonds were 60% to 115% higher than the prices that Kenny provided to other registered investment companies or institutional investors on the same date for the same bonds.

62. Most if not all of the high-yield municipal bonds purchased by the Funds during the Class Period were not traded on organized exchanges during the Class Period. During the Class Period, the terms of such securities were not standardized.

63. Throughout the Class Period, multiple market quotations (quotations based on actual sale/purchase transactions in the market for such securities) were not readily available for most if not all of the high-yield municipal bonds purchased by the Funds during the Class Period. During the Class Period, even single market quotations for such securities were generally not available.

64. SOP 93-1 provides guidance to auditors of investment company financial statements on financial reporting by investment companies for high-yield debt securities held by them as investments.

65. The high-yield municipal bonds held by the Funds were, at all times during the Class Period, "high-yield debt securities" within the meaning of SOP 93-1.

66. Many issuers of the high-yield municipal bonds of the type in which the Funds invested are highly leveraged, with limited equity capital. For this reason, and because the market for such securities may not always be liquid, such securities are subject to increased market risk, liquidity risk, and credit risk.

67. In contrast to investment-grade bonds (the market prices of which change primarily as a reaction to changes in interest rates), the market prices of the high-yield municipal bonds of the type in which the Funds invested were influenced much more by credit factors and financial results of the issuer than by general economic factors affecting the financial markets as a whole.

68. The factors described in paragraphs 66 and 67often make it difficult to substantiate the market value of the high-yield municipal bonds in which the Funds invested.

69. The market risk of the high-yield municipal bonds in which the Funds invested is often heightened by the absence of centralized high-yield bond exchanges and relatively thin trading markets, which make it more difficult to liquidate holdings quickly and increase the volatility of the market price. There is generally no centralized or regulated procedure for pricing the high-yield municipal bonds in which the Funds invested.

70. Issues of high-yield municipal bonds in which the Funds invested are more likely to default on interest or principal than are issues of investment-grade securities. Most of the high-yield

municipal bonds of the type in which the Funds invested that are currently outstanding have been issued since 1985. Accordingly, there is little long-term record on how they perform over all parts of the business cycle.

71. Adverse economic developments in 1990 and 1991 contributed to defaults on principal and interest payments by many issuers of high-yield municipal bonds of the type in which the Funds invested. Those developments emphasized the need for taking great care in valuation, income recognition, and financial statement disclosure by holders of such securities.

72. Because multiple market quotations were not readily available on most, if not all, days during the Class Period for most, if not all, of the high-yield municipal bonds in which the Funds invested during the Class Period, the values of such securities were required to be estimated in good faith. Such good faith security value estimates present the auditor with unique reporting problems.

73. Securities should be stated in financial statements at amounts that represent what could have been realized on a current sale. In the absence of bona fide offers to buy, those amounts are generally not determinable for securities that do not have readily ascertainable market values. The fair valuation procedures that funds' boards of directors are required to employ in such circumstances are designed to approximate the values that would have been established by market forces and are therefore subject to uncertainties.

74. The prices provided by the pricing service used by the Funds during the Class Period were estimates of value and were therefore subject to uncertainties.

75. Because of the Funds' uncertain net asset value and because of the unavailability of market quotations for the high-yield municipal bonds held by the Funds, and because the Funds were

not using fair value pricing for their portfolios, as they were required to do and as they disclosed they would do, the Funds' published net asset value during the Class Period was not a proper measure of the value of the Funds' shares and was materially misstated because of the failure to disclose the uncertainty thereof and the failure to disclose the materiality of such uncertainty.

76. The Funds' board of directors was required to satisfy itself that all relevant factors were considered in valuing the Funds' portfolio securities during the Class Period and that the method used to estimate value was acceptable. The Funds' board of directors did not satisfy itself either that all relevant factors were considered in valuing the Funds' portfolio securities or that the method used to estimate value was acceptable.

The Need for, and the Funds' Failure to Use, Daily Pricing

77. Section 22(c) of the ICA, 15 U.S.C. ' 80-22(c), and Rule 22c-1(b) thereunder, 17 C.F.R. 270.22c-1(b), require open-end funds, such as the Funds, to price their portfolio securities daily in order to be able to continuously sell and redeem their shares.

78. The Funds disclosed that they intended to price their portfolio securities daily. In their prospectus dated June 9, 2000, the Funds said:

> Shares of a Fund are purchased and redeemed at the net asset value per share next determined following receipt of your order in proper form by the Fund or its authorized agent. Net asset value is the difference between the values of the Fund's assets and liabilities divided by the number of shares outstanding. It is determined at the close of regular trading on the New York Stock Exchange (generally 4:00 p.m., Eastern Time) on each day the Exchange is open. Orders received after 4:00 p.m., Eastern Time, are priced at the net asset value per share determined on the next business day of the Fund.

The same or similar language appeared in all of the Funds' prospectuses throughout the Class Period.

79. During the Class Period the Funds did not price all of their portfolio securities daily.

80. Because the Funds were not pricing all of their portfolio securities daily, they were legally disabled from selling their shares. If the Funds had not sold their shares during the Class Period, Plaintiffs and Class members would not have invested in the Funds and would not have incurred the losses they did incur.

<u>The Short Duration Fund's Net Asset Value Plummeted 44%</u>

81. On October 13, 2000, Heartland Advisors announced that it was writing down the NAV of the Short Duration Fund from $8.70 per share to $4.87 per share, a decline of approximately 44%.

82. This extraordinary decline in the Fund's net asset value, and the accompanying losses suffered by Plaintiffs and Class members, occurred because:

1. The Fund's assets were invested in violation of restrictions on the amount of illiquid and below B- securities in which the Fund was permitted to invest;

2. The Fund was not properly valuing its portfolio securities to take into account all relevant factors;

3. The valuations of the high-yield municipal bonds in which the Fund invested were uncertain and such uncertainty was not disclosed; and

4. The Funds failed to price their high-yield municipal bonds daily.

83. If the Fund had pursued its investment objective of low price volatility, and if the Fund had properly priced its portfolio securities, the Fund's net asset value would not have plummeted as it did.

84. If all shareholders in the Short Duration Fund had redeemed their shares on or after September 28, 2000, they would not have received the published net asset value for that date or the

NAV on the next date. Mass redemptions would have forced the mass liquidation of the Fund's portfolio, forcing the Fund to sell its municipal bonds at "fire sale prices" in a market that did not provide sufficient liquidity to allow all such securities to be sold at the prices at which they were carried by the Fund on those dates.

85. If all shareholders in the Short Duration Fund had redeemed their shares on October 13, 2000, they would not have received the published net asset value for that date, $4.87 per share, or the NAV on the next date, $4.89 per share. Mass redemptions would have forced the mass liquidation of the Fund's portfolio, forcing the Fund to sell its municipal bonds at "fire sale prices" in a market that did not provide sufficient liquidity to allow all such securities to be sold at the prices at which they were carried by the Fund on those dates.

The Longer Duration Fund's Net Asset Value Plummeted Almost 70%

86. On October 13, 2000, Advisor announced that it was writing down the net asset value of the Longer Duration Fund from $8.01 per share to $2.45 per share, a decline of 69.4%.

87. This extraordinary decline in the Fund's net asset value, and the accompanying losses suffered by Plaintiffs and Class members, occurred because:

1. The Fund's assets were invested in violation of restrictions on the amount of illiquid and below B- securities in which the Fund was permitted to invest;

2. The Fund was not properly valuing its portfolio securities to take into account all relevant factors;

3. The valuations of the high-yield municipal bonds in which the Fund invested were uncertain and such uncertainty was not disclosed; and

4. The Funds failed to price their high-yield municipal bonds daily.

88. If all shareholders in the Longer Duration Fund had redeemed their shares on or after September 28, 2000, they would not have received the published net asset value for that date or the NAV on the next date. Mass redemptions would have forced the mass liquidation of the Fund's portfolio, forcing the Fund to sell its high-yield municipal bonds at "fire sale prices" in a market that did not provide sufficient liquidity to allow all such securities to be sold at the prices at which they were carried by the Fund on those dates.

89. If all Longer Duration Fund shareholders had redeemed their shares on October 13, 2000, they would not have received the published net asset value for that date, $2.45 per share, or on the next date, $2.55 per share. Mass redemptions would have forced the mass liquidation of the Fund's portfolio, forcing the Fund to sell its municipal bonds at "fire sale prices" in a market that did not provide sufficient liquidity to allow all such securities to be sold at the prices at which they were carried by the Fund on that date.

Defendants' Misrepresentations and Omissions
Relating to the Short Duration Fund

90. In connection with the offer and sale of the Short Duration Fund's shares, the Defendants made the following representations in the Fund's prospectuses and statements of additional information dated May 30, 1997, June 30, 1997, May 1, 1998, November 25, 1998, February 23, 1999, May 1, 1999, November 15, 1999, December 6, 1999, May 1, 2000, June 9, 2000, August 11, 2000, September 28, 2000, and October 16, 2000 and in annual and semi-annual reports and other documents filed with the SEC during the Class Period and in sales materials:

1. The Short Duration Fund's investment objective was a high level of federally tax-exempt current income consistent with a low degree of share price fluctuation;

2. The Short Duration Fund expected to maintain, and would manage its portfolio and investments in securities so as to enable it to maintain, a duration of three years or less;

3. The Short Duration Fund would use fair value pricing procedures to value portfolio securities for which market quotations were not readily available;

4. The Short Duration Fund would price its portfolio securities daily;

5. The Short Duration Fund would limit its investments in illiquid securities to 15% of its net assets; and

6. The Short Duration Fund would never invest more than 20% of its total assets in debt obligations rated lower than B- by Standard & Poor's Rating Services ("S&P") or a comparable rating by another national bond rating organization.

91. The representations set forth above were false and misleading in that they painted a false picture of the Short Duration Fund as a short duration municipal bond, the net asset value of which was subject to only limited fluctuation. These representations were consistent with and reinforced by (i) the Funds' stable NAV throughout the entire Class Period, until October 13, 2000, and (ii) the financial information that appeared in the "Financial Highlights" of each prospectus (see & & 167 and 168 below). From the disclosures set forth above, the Funds' historic NAV and the Financial Highlights, a reasonable investor would conclude that the Short Duration Fund was relatively safe with a stable NAV and was not subject to the risk of extraordinary one-day decline in NAV of 44%, or a drop of 46% over a 15-day period.

92. The representations set forth above were false and misleading in that the Short Duration Fund failed to disclose:

1. That the Fund's duration was, in significant part, irrelevant to the Fund's potential NAV volatility because of its excessive investment in illiquid unrated securities whose valuations were uncertain;

2. That the level of the Fund's income was attributable to its excessive investment in illiquid unrated securities whose valuations were uncertain;

3. That, because of its excessive investments in illiquid unrated securities whose valuations were uncertain, the Fund was far more risky than disclosed;

4. That, because of its excessive investment in illiquid unrated securities, whose valuations were uncertain and which were not being priced daily or in accordance with required and disclosed valuation procedures, the Fund's advertised NAV was vulnerable to a precipitous decline as a result of bringing the Fund's valuation methodology into compliance with required and disclosed procedures and then being compelled to bring the prices of its portfolio securities current immediately;

5. That the Fund was not pricing its portfolio securities daily, as it disclosed it would do and as applicable law required it to do;

6. That the Fund was not properly valuing its portfolio securities in compliance with disclosed procedures and policies for valuing such securities and applicable federal securities laws, rules and regulations, and generally accepted accounting principles;

7. That, given the Fund's excessive investment in illiquid unrated securities whose valuations were uncertain, an investment in the Fund was subject to significantly greater risk than an investment in other short duration municipal bond mutual funds with which the Heartland Defendants compared the Fund's performance;

8. That, given the extent of the Fund's excessive investment in illiquid unrated securities whose valuations were uncertain, Defendants had no reasonable basis for their representations that they believed that limited NAV fluctuation could be achieved;

9. That the Fund was investing more than 20 percent of its total assets in securities with a credit quality of less than B-;

10. That the Fund was investing more than 15 percent of its net assets in illiquid securities;

11. That, as a result of such investment practices, the Fund was much riskier than funds and indices with which the Heartland Defendants compared the Fund's performance;

12. The extent to which the Fund's yield and dividend during the Class Period, as compared with other municipal bond mutual funds of its type, was dependent on investment policies and practices which were inconsistent with limited NAV fluctuation and which subjected shareholders in the Fund to risk and volatility substantially greater than those of other municipal bond mutual funds of its type; and

13. That Defendant Conlin had previously managed another municipal bond mutual fund's portfolio by investing in instruments with longer maturities than were suitable for inclusion in a short term fund for the purpose of securing higher yield, resulting in that fund under-performing 95% of its peers in 1995, after which Conlin's employment as portfolio manager of that fund was terminated.

93. The Fund's generalized risk disclosures in its prospectuses, its annual and semi-annual reports, and elsewhere, which were substantially uniform throughout the Class Period, were negated and rendered immaterial and meaningless:

1. By the specific disclosures relating to duration objective and actual duration and the salutary effect of a short duration portfolio on the Fund's future price fluctuation and on the risk that, in the absence of such short duration, would otherwise be inherent in its portfolio;

2. By the financial performance of the Fund as reflected in its historic stable NAV until October 13, 2000 and as reflected in the Financial Highlights disclosed in the Fund's prospectuses throughout the Class Period;

3. By the failure to disclose the matters set forth in & 92;

4. By touting the ratings by organizations, such as Morningstar, that highly rated the Fund on a risk-adjusted basis as the Heartland Defendants did in the Fund's 1999 annual report to shareholders;

5. Because they were substantially the same as those of its affiliated funds, the NAV of one of which declined only six percent as a result of the adoption of new pricing procedures in October 2000 and the NAV of the other of which declined almost 70% as a result of the adoption of such new pricing procedures;

6. As a result of the Fund's failure to disclose in its financial statements, or the footnotes thereto, and PwC's failure to disclose in its report, the valuation uncertainty inherent in the Funds' NAV;

7. By the Fund offering check-writing services, a feature that reinforced the perception of the Fund as one with a stable NAV;

8. By the Heartland Defendants repeatedly comparing the Fund's performance with the Lehman Brothers Municipal 1-3 Year Non-Investment Grade Index and the Morningstar Municipal Bond Short-Term Category, implying, in the absence of a contrary disclosure, that the

Fund was comparable in risk to such funds and index, thereby reinforcing the Fund's portrayal of itself as a relatively safe short duration or short-term municipal bond fund; and

9. Because PwC ignored, or failed to take seriously, such disclosures and representations, even though PwC was required to take such information into account when conducting its audits of the Fund's financial statements.

Defendants' Misrepresentations and Omissions
Relating to the Longer Duration Fund

94. In connection with the offer and sale of the Longer Duration Fund's shares, the Defendants made the following representations in the Fund's prospectuses and statements of additional information dated May 30, 1997, June 30, 1997, May 1, 1998, November 25, 1998, February 23, 1999, May 1, 1999, November 15, 1999, December 6, 1999, May 1, 2000, June 9, 2000, August 11, 2000, September 28, 2000, and October 16, 2000 and in annual reports and other documents filed with the SEC during the Class Period and in sales materials:

1. The Fund would use fair value pricing procedures to value portfolio securities for which market quotations were not readily available;

2. The Fund would price its portfolio securities daily;

3. The Fund would never invest more than 20% of its total assets in debt obligations rated lower than B- by Standard & Poor's Rating Services ("S&P") or a comparable rating by another nationally statistical rating organization;

4. The Fund would limit its investments in illiquid securities to 15% of its net assets; and

5. The Fund would use duration to limit the fluctuations in its NAV.

95. The representations set forth above were false and misleading in that they painted a false picture of the Longer Duration Fund as a reasonably safe fund whose net asset value was subject to only limited fluctuation. These representations were consistent with and reinforced by (i) the Fund's relatively stable NAV throughout the entire Class Period, until October 13, 2000, and (ii) the financial information that appeared in the "Financial Highlights" of each prospectus (see & & 167 and 168 below). From the disclosures set forth above, the Fund's historic NAV and the Financial Highlights, a reasonable investor would conclude that the Fund was relatively safe with a comparatively stable NAV and was not subject to the risk of a catastrophic one-day decline in NAV of almost 70% or a 15-day decline of 78%.

96. The representations set forth above were false and misleading in that the Longer Duration Fund failed to disclose:

1. That, because of its excessive investment in illiquid unrated securities whose valuations were uncertain and which were not being priced daily or in accordance with required and disclosed valuation procedures, the Fund's advertised NAV was vulnerable to a precipitous decline as a result of bringing the Fund's valuation methodology into compliance with required and disclosed procedures and then being compelled to bring the prices of its portfolio securities current immediately;

2. That the Fund was not pricing its portfolio securities daily, as it disclosed it would do and as applicable law required it to do;

3. The Fund was not properly valuing its portfolio securities in compliance with required and disclosed procedures and policies for valuing such securities and applicable federal securities laws, rules and regulations, and generally accepted accounting principles;

4. That, while the Fund disclosed that a substantial portion of its portfolio was not rated, a substantial portion of those unrated securities, if rated, would have been rated "B-" or less;

5. The valuation of the Fund's portfolio securities, and therefore its NAV, was based on mere estimates and, therefore, was subject to substantial uncertainty;

6. That duration was, in significant part, irrelevant to the Fund's potential NAV volatility because of its excessive investment in illiquid unrated securities whose valuations were uncertain;

7. That the level of the Fund's income was attributable to its excessive investment in illiquid unrated securities whose valuations were uncertain;

8. That, because of its excessive investments in illiquid unrated securities whose valuation was uncertain, the Fund was far more risky than disclosed;

9. That, given the Fund's excessive investment in illiquid unrated securities whose valuations were uncertain, an investment in the Fund was subject to significantly greater risk than an investment in other municipal bond mutual funds with which the Heartland Defendants compared the Fund's performance;

10. That the Fund was investing more than 20 percent of its total assets in securities with a credit quality of less than B-;

11. That the Fund was investing more than 15 percent of its net assets in illiquid securities;

12. That, as a result of its investment practices, the Fund was much riskier than the indices with which the Heartland Defendants compared its performance;

13. The extent to which the Fund's yield and dividend during the Class Period, as compared with other municipal bond mutual funds of its type, was dependent on the Fund's excessive investment in illiquid unrated securities whose valuations were uncertain;

14. The extent to which the Fund's yield and dividend during the Class Period, as compared with other municipal bond mutual funds of its type, was dependent on investment policies and practices that subjected shareholders in the Fund to risk and volatility substantially greater than those of other municipal bond mutual funds of its type; and

15. That Defendant Conlin had previously managed another municipal bond mutual fund's portfolio by investing in unsuitable instruments (given that fund's investment objective) for the purpose of securing higher yield resulting in that fund under performing 95% of its peers in 1995, after which Conlin's employment as portfolio manager of that fund was terminated.

97. The Longer Duration Fund's generalized risk disclosures in its prospectuses, its annual and semi-annual reports, and elsewhere, which were substantially uniform throughout the Class Period, were negated and rendered immaterial and meaningless:

1. By the financial performance of the Fund as reflected in its historic relatively stable NAV until October 13, 2000 and as reflected in the Financial Highlights disclosed in the Fund's prospectuses throughout the Class Period;

2. By the failure to disclose the matters set forth in & 96;

3. By touting the ratings by organizations such as Morningstar that highly rated the Fund on a risk-adjusted basis, as the Heartland Defendants did in the Fund's 1999 annual report to shareholders;

4. As a result of the Fund's failure to disclose in its financial statements, or the footnotes thereto, and PwC's failure to disclose in its report the valuation uncertainty inherent in the Funds' NAV;

5. By suggesting that the Fund's risk could be partially mitigated by using duration to help manage share price fluctuation;

6. Because such generalized risk disclosures were substantially the same as those of its affiliated funds, the NAV of one of which declined only six percent as a result of the adoption of new pricing procedures in October 2000 and the NAV of the other of which declined by 44% as a result of the adoption of such new pricing procedures; and

7. Because PwC ignored, or failed to take seriously, such disclosures, even though PwC was required to take such information into account when conducting its audits of the Fund's financial statements.

<u>PwC's Required Knowledge, Responsibilities and Duties -- Generally</u>

98. In connection with its audits of the Funds' 1997, 1998 and 1999 annual financial statements, its reviews of the Funds' 1998, 1999 and 2000 semi-annual financial statements, its issuance of reports on the Funds' internal controls, and its affirmance of the information in the Funds' several prospectuses that was derived from the Funds' audited financial statements, PwC was required by SEC rules and regulations and by generally accepted accounting principles and auditing standards to know about the Funds' failure to price all of their portfolio securities daily; their failure to use valuation methods required by SEC rules and regulations, generally accepted accounting principles, and by the Funds' disclosures; the valuation uncertainty attendant to the high-yield

municipal bonds in which the Funds invested; and the Funds' noncompliance with the limitations on illiquid securities and below B- rated securities.

99. The form and content of, and requirements for, financial statements of registered investment companies such as the Funds are governed by SEC Regulation S-X and the interpretive releases (Accounting Series Releases) relating thereto. The Accounting Series Releases, or "ASRs," have been codified into the SEC's Codification of Financial Reporting Policies ("Codification").

100. The American Institute of Certified Public Accountants ("AICPA") *Audit and Accounting Guide, Audits of Investment Companies* ("AICPA Guide") is an authoritative source that sets forth recommendations of the AICPA Investment Companies Special Committee on the application of generally accepted auditing standards to audits of financial statements of investment companies. The AICPA Guide also presents the committee's recommendations on and descriptions of financial accounting and reporting principles and practices for investment companies.

101. The AICPA Guide is consistent with the standards and principles covered by Rules 202 and 203 of the AICPA Code of Professional Conduct.

102. The AICPA Guide applicable to PwC's audit of the Funds' 1999 and 1998 financial statements was the Guide that reflected relevant guidance contained in authoritative pronouncements through May 1, 1998. The AICPA Guide applicable to PwC's audit of the Funds' 1997 financial statements was the Guide with conforming changes as of May 1, 1997.

103. PwC auditors who audited the Funds' annual financial statements were required by the AICPA Guide to use it. PwC must be prepared to justify any departures from the AICPA Guide that may have occurred in the course of its audits of the Funds' financial statements.

104. The AICPA Guide did not describe all auditing procedures necessary to perform an audit in accordance with generally accepted auditing standards. The Guide was not intended to limit or supplant the PwC auditors' individual judgment, initiative, imagination, or vigilance. Programs for each audit should be designed to meet its particular requirements, considering the size and kind of organization and the adequacy of internal control.

105. In both the 1997 and 1998 AICPA Guide, PwC's attention was called to the "clarification of the wording in an auditor's report that is modified because of an uncertainty as to the values of portfolio securities."

106. Statements of Position of the AICPA Accounting Standards Division present the conclusions of at least two-thirds of the Accounting Standards Executive Committee, which is the senior technical body of the AICPA authorized to speak for the Institute in the areas of financial accounting and reporting. Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles *in the Independent Auditor's Report*, identifies AICPA Statements of Position as sources of established accounting principles that an AICPA member should consider if the accounting treatment of a transaction or event is not specified by a pronouncement covered by Rule 203 of the AICPA Code of Professional Conduct. In such circumstances, the accounting treatment specified by Statement of Position 93-1 should be used, or the member should be prepared to justify a conclusion that another treatment better presents the substance of the transaction in the circumstances.

107. With respect to PwC's audits of the Funds' 1997, 1998 and 1999 annual financial statements, AICPA Statement of Position ("SOP") 93-1 provided guidance on the Funds' financial reporting for the high-yield municipal bonds held by them as investments. SOP 93-1 recommended

procedures to be considered by PwC for reviewing the valuations of the high-yield municipal bonds reported in the Funds' financial statements.

108. The AICPA Guide advised PwC auditors to become familiar with the Codification, especially ' 404.03. Section 404.03.a. provides:

> Where the propriety or validity of an investment in a security by an investment company is questionable because of particular provisions of the Investment Company Act, or state law, or the company's investment policy or other representations as stated in its filings with the Commission, or legal obligations in respect of a contract or transaction, a written opinion of legal counsel should also be obtained by the company's management, made available to the independent accountant, and a copy included in the working papers. If the questions of propriety or validity are not satisfactorily resolved, the circumstances of the investment should be disclosed in the financial statements or notes thereto.

109. The Funds issued semi-annual reports, including financial statements that reported the Funds' net asset value, as of June 30, 1998, 1999 and 2000. Such financial statements should be complete and based on generally accepted accounting principles, which should conform to the principles used in preparing the Funds' annual financial statements.

110. It is customary for auditors to review registered investment companies' interim financial statements. PwC reviewed the Funds' semi-annual financial statements as of June 30, 1998, 1999 and 2000.

111. Investment companies are grouped according to their primary investment objectives, and the types of investments made by those funds reflect their stated objectives. The composition of an investment company's portfolio is primarily a function of the company's investment objectives and its market strategy to achieve them.

112. The AICPA Guide provides that, before starting an audit of an investment company's financial statements, an auditor is to be familiar with, *inter alia*, the fund's business and operating

characteristics, its industry generally, applicable statutes and regulations, SEC registration and reporting forms, the statistics that should be maintained by investment companies and the sources of such data, the company's investment objective and limitations and restrictions, and SEC Form N-SAR (a reporting form used by registered investment companies for semiannual and annual reports that provides current information and demonstrates compliance with the ICA).

113. The second standard of auditing fieldwork, part of generally accepted auditing standards, states that "A sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed." SEC Form N-SAR required PwC, as the auditor of the Funds' financial statements, to report annually to the SEC and to the Funds' directors and shareholders on the Funds' internal control.

114. According to the AICPA Guide, in its consideration of the Funds' internal control structure and whether that structure ensured compliance with the Funds' investment policies and restrictions, PwC should have reviewed such relevant Fund documents as the most recent prospectus, compliance items reported in the annual N-SAR report to the SEC, and other publicly filed documents, certificate of incorporation, bylaws, and minutes of board and audit committee meetings.

PwC's Required Knowledge, Responsibilities and Duties --
<u>Pricing and Valuation of the Funds' High-Yield Municipal Bonds</u>

115. The AICPA Guide informed the PwC auditors working on the audits of the Funds' financial statements that, under the ICA, open-end investment companies offering their shares to the public continuously are required to compute net asset value per share daily to price shares redeemed and sold, citing ICA Rule 22c-1. SOP 93-1 advised PwC auditors to consider reviewing the methods

used by management to determine and update daily prices and the consistency of these methods from period to period and across similar securities.

116. The AICPA Guide informed PwC auditors working on the audits of the Funds' financial statements of the following: "Because trading activity is limited and the market in which [municipal bonds] are traded is thin, dealer quotations may not indicate the prices at which municipal bonds may be bought or sold. Fair value is estimated by . . . the board of directors of a management investment company." The Guide further advised PwC's auditors that municipal bonds "require special consideration for valuation."

117. The AICPA Guide provides that the audit of an investment company's investment accounts is a significant portion of the overall audit because of the relative significance of those accounts and of the related income accounts. In auditing the Funds' investment accounts, PwC should have considered, pursuant to applicable auditing procedures, various aspects of the Funds' transactions with brokers and pricing services.

118. PwC's principal objectives in auditing the Funds' investment accounts during the Class Period were to determine, *inter alia*, whether there was a reasonable assurance that the Funds' portfolio investments were properly valued.

119. As a major national public accounting firm with substantial expertise in auditing the financial statements of registered investment companies, PwC knew that, because the fee paid by an investment company to its adviser to manage its portfolio is a percentage of the value of the portfolio and because of the pressures on portfolio managers to achieve significant above average performance in a highly competitive industry to attract additional investment dollars, a risk inherent in the valuation of portfolio securities by the management of the investment company is that

management has an incentive to err on the high side when valuing portfolio securities. It is in part because of this incentive that auditors must be especially vigilant when auditing valuations of portfolio securities in the course of their audits of an investment company's financial statements.

120. As part of PwC's audits of the Funds' financial statements, PwC was required to confirm that the prices used by the Funds to value their portfolio securities were reasonable.

121. As part of PwC's examination of the Funds' transactions, PwC was required to test the Funds' respective net asset values as computed on the Funds' price makeup sheets at the date of the Funds' financial statements and on selected interim dates. Such tests should have included procedures that, *inter alia*, traced quoted market prices to independent sources and, when independent sources were not available, to supporting documentation for investments stated at fair values, as determined by the board of directors.

122. As the auditor of the Funds' financial statements, PwC was required to ascertain whether the pricing and valuation procedures used by the Funds complied with the disclosed accounting policies, applicable SEC rules and regulations, and generally accepted accounting principles.

123. With respect to the Funds' use of dealers or pricing services to value the Funds' municipal bonds, PwC was required to consider whether control procedures maintained by the Funds or by the dealer or pricing service provided reasonable assurance that material pricing errors would be prevented or detected. Such control procedures included checking methods used by the pricing service to obtain daily quotations, verifying daily changes of individual securities prices in excess of a stipulated percentage, verifying dealer quotations with other dealers on a test basis, and maintaining a comparison of actual sales prices with the value assigned for the preceding day. In

performing these tests, PwC should have considered obtaining independent quotations from dealers or visiting the pricing service's facilities to review the procedures used to determine values.

124. With respect to security values estimated in good faith by the Funds' board of directors, PwC was required to review the procedures employed by the board of directors for its continuing appraisal of such securities, determine whether the methods established for such valuations were followed, and make certain that these methods were reviewed and approved currently by the board of directors. PwC was required to review the procedures applied by the board of directors in valuing such securities and to inspect the underlying documentation to determine whether the procedures were reasonable and the documentation appropriate for that purpose.

125. Pricing and valuation of the Funds' portfolio securities were part of the Funds' internal accounting controls, for the examination or testing of which PwC was responsible in connection with its audits of the Funds' financial statements and on which PwC was required to report in addition to its audit report and opinion.

126. SEC Form N-SAR states that the auditor's report on a registered investment company's internal controls should be "based on a review, study, and evaluation of the accounting system, internal accounting controls, Y made during the audit of the financial statements. The report should disclose material weaknesses in the accounting system, the system of internal accounting control . . . that exist as of the end of the registrant's fiscal year. Disclosure of a material weakness should include an indication of any corrective action taken or proposed." PwC's reports on the Funds' internal controls were exhibits to the Funds' Form N-SAR reports and should have been addressed to the Funds' shareholders and board of directors.

127. To the extent that the Funds' management was relying on a pricing service to price its securities, the Funds' management was obliged to understand how the pricing service was pricing those securities, including whether the pricing service was taking into account in pricing the Funds' securities those factors deemed relevant by the Funds' management and board of directors. PwC, as auditor of the Funds' financial statements, was required to ascertain that the Funds' management had such an understanding.

128. The admitted failure of the Funds to value their securities in accordance with their disclosed valuation policies, as set forth in their prospectuses and the accounting policy footnote to their annual financial statements, which were audited by PwC, should have caused PwC to question the adequacy of the Funds' internal controls.

129. PwC knew that, under the ICA, an open-end mutual fund (one that offered its shares continuously to the public), such as the Funds, is required to compute its net asset value daily in order to price the fund's shares that are being redeemed and sold.

PwC's Required Knowledge, Responsibilities and Duties --
The Need for Good Faith Fair Value Procedures; Valuation Uncertainty

130. SOP 93-1 states that securities that have no credit rating should be classified as high-yield debt securities if they otherwise have the characteristics of such securities. The unrated high-yield municipal bonds in which the Funds invested had the characteristics of municipal bonds having a lower-than-investment-grade credit rating (BB+ or lower by Standard & Poor's or Ba or lower by Moody's).

131. PwC knew that trading activity in the high-yield municipal bonds of the type in which the Funds invested is limited, that the market in which these securities are traded is thin, and that, accordingly, dealer quotations may not indicate the prices at which the Funds' high-yield municipal

bonds may be bought or sold. Accordingly, PwC knew that the fair value of such securities should have been estimated by the Funds' board of directors and that the board of directors should have implemented good faith fair value procedures for this purpose. PwC further knew that the Funds' board of directors had not implemented such procedures.

132. According to the AICPA Guide, investment companies such as the Funds report their investment securities at value, defined as the quoted market price for securities for which market quotations are readily available, or, if market quotations are not readily available, an estimate of value (fair value) as determined in good faith by the board of directors.

133. PwC knew that securities for which market quotations are not readily available are very difficult to price and that the pricing thereof becomes subjective.

134. According to the AICPA Guide and Codification ' 404.03, quotations for over-the-counter securities should ordinarily be obtained from more than one broker-dealer, unless they are available from an established market maker for that security. Quotations for several days should be reviewed. If a security has been sold infrequently or if the market in the security is thin, the reliability of market quotations should be considered. If market quotations for the security are deemed not reliable, an estimate of value, as determined in good faith by the board of directors, should be used.

135. There were no established market makers for most if not all of the high-yield municipal bonds in which the Funds invested during the Class Period, and any purported market quotations were not reliable indicators of market value.

136. According to the AICPA Guide and Codification ' 404.03, in certain circumstances, it may be necessary to estimate the fair value of securities if market quotations are not readily

available. The objective of the estimating procedures is to state the securities at the amount the owner could reasonably expect to receive for them in a current sale, though the owner may not intend to sell them.

137. Because most if not all of the high-yield municipal bonds in which the Funds invested did not have readily ascertainable market values, the AICPA Guide and Codification ' 404.03 required that their valuation should have been determined by the board of directors' fair valuation procedures that were designed to approximate the values that would have been established by market forces.

138. According to the AICPA Guide and SOP 93-1, because the high-yield municipal bonds in which the Funds invested did not have readily ascertainable market values and because the valuation of such securities was, therefore, estimated, their valuation was subject to uncertainty.

139. In connection with its efforts to test or verify the prices used by the Funds for the high-yield municipal bonds in their portfolios, PwC was unable to obtain independent secondary quotations for a material number of such securities during the course of its audits of the Funds' 1997, 1998 and 1999 financial statements.

140. Upon determining that market quotations were not readily available for a material portion of the Funds' portfolio securities, PwC should have determined what, if any, procedures had been adopted by the Funds' board of directors for good faith fair value pricing of such securities. In light of the October 16th disclosures by the Funds relating to the implementation of new fair value procedures, PwC did not do so.

141. Even though the Funds' portfolios were invested in high-yield municipal bonds for which even a single market quotation was not readily available (and for which independent

secondary market quotations were not available at all), and even though the Funds' prospectuses and annual and semi-annual shareholder reports throughout the Class Period represented the following:

> Securities and other assets for which quotations are not readily available are valued at their fair value using methods determined by the Board of Directors.

These securities were never valued in good faith by the Funds' board of directors on behalf of the Funds.

142. Even though the Funds' board of directors did not perform good faith fair value estimates of the market value of the high-yield municipal bonds in the Funds' portfolios for which market quotations were not readily available, and for which PwC was unable to obtain independent secondary market quotations, PwC, in connection with its audits of the Funds' 1997, 1998 and 1999 annual financial statements:

1. Never advised the Funds' board of directors of the need to perform good faith estimates of value for those high-yield municipal bonds for which secondary market quotations were not readily available, as PwC was required to do;

2. Never disclosed that the Funds' net asset value was subject to significant uncertainty in light of the magnitude of the Funds' investments in high-yield municipal bonds for which secondary market quotations were not readily available, as PwC was required to do;

3. Never added an explanatory paragraph to its standard reports to emphasize the uncertainty of the valuation of the high-yield municipal bonds for which secondary market quotations were not readily available, as PwC was required to do;

4. Never sought to review whatever good faith fair value procedures the Funds' board of directors on behalf of the Funds may have implemented to estimate the value of the high-yield municipal bonds in which the Funds invested, as PwC was required to do;

5. Never modified its opinions to report that the Funds' financial statements did not conform with generally accepted accounting principles or rendered an adverse opinion, as PwC was required to do;

6. Never included in its reports an explanatory paragraph disclosing the large portion of the Funds' portfolios subject to good faith valuation estimates by the Funds' board of directors on behalf of the Funds in view of the absence of readily ascertainable market values, as PwC was required to do;

7. Never determined whether the Funds' board of directors on behalf of the Funds was making, or should be making, good faith estimates of the value of these securities and, therefore, never determined whether the procedures employed were inadequate or unreasonable and, therefore, never determined to qualify its opinions on the Funds' financial statements as a result of any such inadequate or unreasonable procedures, as PwC was required to do; or

8. Never advised the Funds' board of directors that PwC was unable to render an unqualified opinion because of the limitation placed on the scope of its audits as a result of the uncertain values of the Funds' portfolio securities, as PwC was required to do and as PwC did do in connection with its audits of the Funds' 2000 financial statements.

143. Furthermore, despite the substantial presence in the Funds' portfolio of high-yield municipal bonds for which market quotations were not readily available, PwC:

1. Never determined whether control procedures maintained by the Funds, or by the dealer or pricing service used by the Funds to value the high-yield municipal bonds in which the Funds invested, provided reasonable assurance that material pricing errors would be prevented or detected, as directed by the AICPA Guide;

2. Never examined the methods used by the pricing service to obtain daily quotations or verify dealer quotations with other dealers on a test basis, as directed by the AICPA Guide;

3. Did not obtain independent quotations from dealers, as directed by the AICPA Guide;

4. Never determined the pricing methodology used by the Funds' pricing services, whether such methods included all relevant factors, as determined by the Funds' board of directors or otherwise, or whether such services used matrix pricing, as directed by the AICPA Guide; or

5. Never sought to obtain, and did not obtain, quotations from market makers, as directed by the AICPA Guide, because there were no market makers for the high-yield municipal bonds in which the Funds invested.

144. With respect to the failure of the Funds' board of directors to use good faith fair value procedures to value the high-yield municipal bonds in the Funds' portfolios, PwC never:

1. Reviewed the procedures employed by the Funds' board of directors in connection with the Funds' continuing appraisal of such securities, as PwC was required to do;

2. Determined whether the methods established by the Funds for such valuations were followed, as PwC was required to do;

3. Made certain that the methods established by the Funds for such valuations had been reviewed and approved by the Funds' board of directors, as PwC was required to do;

4. Inspected the documentation underlying such valuations to determine whether the procedures were reasonable and the documentation appropriate for the purpose of valuing such securities, as PwC was required to do; or

5. Determined whether the procedures being used to value the Funds' high-yield municipal bonds were consistent with the procedures disclosed in the Funds' prospectuses and annual and semi-annual reports.

145. The high-yield municipal bonds that were subject to good faith fair value procedures constituted a material portion of the Funds' portfolios and their respective NAVs throughout the Class Period.

PwC's Required Knowledge, Responsibilities and Duties -- The Funds' Noncompliance with Their Investment Policies and Restrictions

146. The AICPA Guide provided that one of PwC's principal audit objectives in auditing the Funds' investment accounts was to determine whether there was a reasonable assurance that the Funds were complying with restrictions under their stated investment objectives and policies.

147. PwC was required to consider whether the Funds' management had a program to prevent, deter, or detect noncompliance with the Funds' investment restrictions. PwC was also to have considered whether such program identified noncompliance with the stated investment restrictions and tested the operation of the program to the extent considered necessary. PwC was also to have considered whether any failure by the Funds to comply with their stated investment restrictions was a possible illegal act that had an indirect effect on the Funds' financial statements.

148. The Short Duration Fund's stated investment objective was to maintain a stable NAV with limited price fluctuations and, to that end, it represented that it would limit its investments in

illiquid securities to 15% of its net assets and would limit its investments in securities rated below B- to 20% of its portfolio.

149. In fact, the Short Duration Fund's investments in illiquid securities during the Class Period substantially exceeded the 15% limitation. Likewise, its investments in securities with a credit quality comparable to less than B- substantially exceeded the 20% limitation.

150. The Longer Duration Fund represented that it would limit its investments in illiquid securities to 15% of its net assets and would limit its investments in securities rated below B- to 20% of its portfolio.

151. In fact, the Longer Duration Fund's investments in illiquid securities during the Class Period substantially exceeded the 15% limitation. Likewise, its investments in securities with a credit quality comparable to less than B- substantially exceeded the 20% limitation.

152. Furthermore, PwC knew and reasonably must have known in the discharge of its duties as that fund's auditor that Defendant Conlin, the Funds' portfolio manager, had left his position as manager of the Strong Funds high-yield municipal bond fund in 1995 after deviating substantially from that fund's stated investment objectives. In that regard, Conlin had invested that fund's assets in bonds with extended maturities inappropriate for inclusion in such a fund's portfolio in order to enhance the fund's yield. The strategy backfired, and Conlin left his position after the fund he managed for Strong lagged the performance of 95% of its peers in 1995. Knowledge of these facts imposed upon PwC an enhanced duty to scrutinize the duration and appropriateness of the Funds' investments in view of their stated objectives and investment restrictions.

153. Knowledge of Conlin's prior experience was also necessary to enable PwC to assess the adequacy of the Funds' internal control; the integrity and competence of management are

customarily considered by auditors to be factors in making such assessment. Such matters are also customarily considered by auditors in planning their audits.

PwC's Disclosure and Reporting Obligations

154. If PwC had properly carried out its duties in the course of its audits of the financial statements of the Funds for their fiscal years ended December 31, 1997, 1998 and 1999, PwC would have ascertained the failure to price a significant amount of the Funds' securities daily, the failure to properly value the Funds' high-yield municipal bonds, the failure to disclose the uncertain value of many of the Funds' portfolio securities and of the Funds' respective net asset values, and the Funds' excessive investments in illiquid high-yield municipal bonds and in bonds with a credit quality of less than B-, all in violation of express prohibitions against such investment practices and generally accepted accounting principles and SEC rules and regulations, as well as the Funds' own disclosures.

155. SEC Codification ' 404.03 provides that where "questions of propriety or validity [relating to a mutual fund's investments] are not satisfactorily resolved, the circumstances of the investment should be disclosed in the financial statements or notes thereto."

156. The AICPA Guide provides that if PwC was unable to obtain sufficient evidential matter to support the Funds' management's assertions about the nature of a matter involving an uncertainty -- e.g., the valuation of the Funds' high-yield municipal bonds -- and its presentation or disclosure in the Funds' financial statements, PwC should have considered the need to express a qualified opinion or to disclaim an opinion because of a scope limitation. PwC did not do so in connection with its audits of the Funds' 1997, 1998 and 1999 financial statements. This is what PwC did do in connection with its audits of the Funds' 2000 financial statements.

157. The AICPA Guide further provides that if PwC's audits of the Funds' financial statements revealed that the valuation procedures used by the Funds' board of directors were inadequate or unreasonable, or that the underlying documentation did not support the valuations, PwC should have modified its opinion for lack of conformity with generally accepted accounting principles or, depending on the significance to the financial statements of the securities subject to such valuation procedures, PwC should have issued an adverse opinion.

158. SOP 93-1 provides that even if PwC had concluded, in the course of its audits of the Funds' 1997, 1998 and 1999 financial statements, that, based on an examination of the available evidence, the process used to estimate the values of the Funds' high-yield municipal bonds was reasonable, the documentation supportive, and the range of possible values of such securities was not significant, PwC might still have chosen to emphasize the existence of the uncertainties relating to such valuations of such securities by including an explanatory paragraph in PwC's audit reports on those financial statements.

159. In connection with its audits of the Funds' 1997, 1998 and 1999 annual financial statements, PwC failed to consider any of the alternatives described in the preceding paragraphs 157-161 or, if PwC did consider such alternatives, it improperly failed to make one or more of the required disclosures. In light of the magnitude of the high-yield municipal bonds for which secondary market quotations were not readily available and which were, therefore, subject to good faith fair value procedures, PwC should have, with respect to the Funds' 1997, 1998 and 1999 financial statements, either:

1. Included an explanatory paragraph in its reports on the Funds' financial statements disclosing the large portion of the Funds' portfolios subject to good faith fair value

estimates by the Funds' board of directors, along with an explanatory paragraph to emphasize the uncertainty of the valuation of such securities; or

2. Issued opinions that were qualified for lack of conformity with generally accepted accounting principles; or

3. Issued adverse opinions, or disclaimed an opinion, because of the limitation on the scope of its audit resulting from such valuation uncertainty or from the failure of the valuation of the high-yield municipal bonds in which the Funds invested to be done in accordance with required and disclosed valuation procedures.

160. PwC furnished to the Funds' officers and directors in connection with each of its audits of the Funds' 1997, 1998 and 1999 annual financial statements a "management letter" in which it commented on, *inter alia*, the Funds' internal controls. In this management letter PwC should have reported to the Funds' management and board of directors the failure to price a significant amount of the Funds' securities daily; the failure to value the Funds' high-yield municipal bonds in accordance with the Funds' disclosed valuation policy, applicable generally accepted accounting principles, and SEC rules and regulations; and the failure to comply with the disclosed limitations on the Funds' investments in illiquid securities and securities of lower than B- credit quality.

161. In its report pursuant to Form N-SAR on the Funds' internal controls, PwC should have reported to the SEC, the Funds' directors and the Funds' shareholders the failure to price a significant amount of the Funds' securities daily; the failure to value the Funds' high-yield municipal bonds in accordance with the Funds' disclosed valuation policy, applicable generally accepted accounting principles, and SEC rules and regulations; and the failure to comply with the disclosed

limitations on the Funds' investments in illiquid securities and securities of lower than B- credit quality.

162. In its reports to the Funds' shareholders on the Funds' annual 1997, 1998 and 1999 financial statements, or in footnotes to such financial statements, PwC should have disclosed, or advised the Funds to disclose, the failure to price a significant amount of the Funds' securities daily; the failure to value the Funds' high-yield municipal bonds in accordance with the Funds' disclosed valuation policy, applicable generally accepted accounting principles, and SEC rules and regulations; and the failure to comply with the disclosed limitations on the Funds' investments in illiquid securities and securities of lower than B- credit quality.

163. If PwC had timely so informed the Funds' management and directors, the Funds could have taken corrective action to bring its pricing procedures into compliance with generally accepted accounting principles and SEC rules and regulations and disclosed accounting policies, and warned its shareholders and prospective investors about the uncertainty of its net asset value. Alternatively, the Funds would have been compelled to suspend selling and redeeming their shares until corrective actions were taken, thereby precluding the investments made in the Funds during most or all of the Class Period.

164. If, in the absence of corrective action by the Heartland Defendants, PwC had timely so informed the SEC, the Funds would have been compelled to suspend selling and redeeming their shares or would have been subject to such additional action as the SEC has now taken.

PwC's False Direct Representations

165. In connection with the offer and sale of the Short Duration Fund's shares, Defendant PwC made the following representations in each of the Fund's registration statements, or

amendments thereto, dated May 30, 1997, June 30, 1997, May 1, 1998, November 25, 1998, February 23, 1999, May 1, 1999, November 15, 1999, December 6, 1999, May 1, 2000, June 9, 2000, August 11, 2000, September 28, 2000, and October 16, 2000, and in annual reports and other documents filed with the SEC during the Class Period:

> In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Heartland Short Duration High-Yield Municipal Fund . . . at December 31, 1999, the results of [its] operations for the year then ended, the changes in [its] net assets and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Funds' management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits . . . provide a reasonable basis for the opinion expressed above.

166. In connection with the offer and sale of the Longer Duration Fund's shares, Defendant PwC made the following representations in each of the Fund's registration statements or amendments thereto, dated May 30, 1997, June 30, 1997, May 1, 1998, November 25, 1998, February 23, 1999, May 1, 1999, November 15, 1999, December 6, 1999, May 1, 2000, June 9, 2000, August 11, 2000, September 28, 2000, and October 16, 2000, and in annual reports and other documents filed with the SEC during the Class Period:

> In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Heartland High-Yield Municipal Fund . . . at December 31, 1999, the results of [its] operations for the year then ended, the changes in [its] net

> assets and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Funds' management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits . . . provide a reasonable basis for the opinion expressed above.

167. Each prospectus contained a section entitled "Financial Highlights." This section contained excerpts from the Funds' audited financial statements for the preceding three years relating to, *inter alia*, total return, yield, NAV at the beginning and end of the period, income (loss) from investment operations, net investment income, net realized and unrealized gains (losses) on investments, distributions, and the ratio of net investment income to average net assets. The financial data that appeared in the "Financial Highlights" section of each of the Funds' prospectuses was examined by PwC.

168. As an example, the following financial information for the three-year period January 2, 1997 through December 31, 1999, was disclosed in the "Financial Highlights" section of the Funds' May 1, 2000 prospectuses:

1. The Short Duration Fund's net asset value per share fluctuated within a narrow range, from a high of $10.15 at December 31, 1998 to a low of $9.98 at December 31, 1999;

2. The Short Duration Fund's ratio of net investment income to average daily net assets during the same period ranged between 5.26% to 5.69%;

3. The Short Duration Fund's total return for the three years was 4.42%, 3.65% and 7.44%;

4. Most importantly for its shareholders, the distributions per share for the Short Duration Fund for the three years were very steady at $0.56, $0.53 and $0.57;

5. The Longer Duration Fund's year-end net asset value per share during the three years was a relatively stable $9.50, $10.38 and $10.45;

6. The Longer Duration Fund's ratio of net investment income to average daily net assets for the three years was constant at 6.35%, 6.01% and 6.01%;

7. The Longer Duration Fund's total return for the three years was (2.45%), 6.66% and 11.67%;

8. Again, most importantly for its shareholders, the distributions per share for the Longer Duration Fund for the three years from investment income were very steady at $0.65, $0.65 and $0.68, and total distributions per share were a relatively steady $0.65, $0.75 and $0.71.

169. The prospectuses contained in the Funds' registration statements were distributed to prospective investors in the Funds and to the Funds' existing shareholders. The Statements of Additional Information contained in the Funds' registration statements were furnished to existing Fund shareholders and prospective investors on request. The 1997, 1998 and 1999 annual reports to shareholders were distributed to existing Fund shareholders at the time they were issued and to prospective investors throughout the year following their issuance until the next annual report was issued.

170. The representations and financial information set forth in paragraphs 165-168 above were false and misleading in that:

1. PwC did not audit the Funds' financial statements in accordance with generally accepted auditing standards;

2. The Funds' financial statements were not presented in accordance with generally accepted accounting principles;

3. With respect to the Short Duration Fund, in connection with the Financial Highlights, PwC failed to disclose that such financial results were obtained by investment practices that were inconsistent with, contrary to, and prohibited by the Funds' investment objective of limited NAV fluctuation and the Fund's investment policies and restrictions;

4. With respect to both Funds, in connection with the Financial Highlights, PwC failed to disclose that such financial results were obtained by investing in speculative low credit quality high-yield municipal bonds in excess of the limitation on such securities implied by the Funds' disclosures that they would not invest more than 20% of their respective portfolios in securities rated lower than B-;

5. With respect to both Funds, in connection with the Financial Highlights, PwC failed to disclose that such financial results were obtained by investing in illiquid high-yield municipal bonds in excess of the 15% limitation on illiquid securities disclosed by the Funds' and recommended by the SEC;

6. With respect to both Funds, in connection with the Financial Highlights, PwC failed to disclose that the financial statements from which the financial highlights were excerpted were not prepared in accordance with generally accepted accounting principles;

7. In its reports on the Funds' financial statements and in connection with the Financial Highlights, in view of the substantial amount of portfolio securities as to which secondary

quotations were not available and which were subject to good faith fair value procedures, PwC failed to disclose the material valuation uncertainty of the high-yield municipal bonds in which the Funds invested and the effect of such uncertainty on the Funds' net asset value, their financial statements and the Financial Highlights;

8. PwC, in its reports on the Funds' financial statements, failed either (i) to qualify its opinions on the Funds' financial statements by including an exception to its opinions for the effect on said financial statements of the valuation of the Funds' securities for which market quotations were not readily available as determined by the Funds' board of directors and the uncertainties attendant to the valuation of such securities, or (ii) to render adverse opinions, or disclaim an opinion, because of the limitation on the scope of its audit resulting from such valuation uncertainty or from the failure of the valuation of the high-yield municipal bonds in which the Funds invested to be done in accordance with required and disclosed valuation procedures, or (iii) to include an explanatory paragraph disclosing the valuation risk inherent in the Funds' portfolios in view of the substantial amount of securities subject to good faith fair value procedures;

9. PwC failed to apply appropriate audit procedures to the valuations of the Funds' high-yield municipal bonds and failed to modify its audit reports to disclose the Funds' use of an improper valuation method for a significant portion of the Funds' portfolios;

10. PwC improperly relied upon the representations of the Funds' management as to the Funds' compliance with their respective investment objectives, policies and restrictions;

11. PwC did not obtain reasonable assurance that the Funds were not violating their respective investment objectives, policies or restrictions; and

12. The Financial Highlights falsely portrayed the Funds as relatively stable (i.e., safe) fixed income investment vehicles providing a steady stream of dividends and concealed the potential for great loss that lurked in each of the Funds' portfolios, which false portrayal would have been cured by the disclosures that PwC was required to make in its reports on the Funds' financial statements, or that PwC was required to advise the Funds to make in their financial statements and the footnotes thereto, in accordance with generally accepted accounting principles and applicable SEC rules.

171. If PwC had not failed in its auditing function as alleged herein but instead had conducted the auditing procedures and tests described herein for the Funds' fiscal years ended December 31, 1997, 1998 and 1999 with the care and diligence reasonably expected by the Plaintiffs and the Class, and in the manner reasonably expected by the Funds' management and board of directors in light of PwC's advertised expertise in matters relating to investment companies and in response to the reliance by the Funds' management and board of directors on PwC as invited by PwC, PwC would have reported to the directors that the Funds were engaging in the wrongful conduct described herein, and corrective actions could have been taken by the Funds' management that would have avoided the losses incurred by Plaintiffs and the class.

172. If PwC had disclosed the matters required to be disclosed by the AICPA Guide in its reports on the Fund's 1997, 1998 and 1999 financial statements, shareholders in the Fund and prospective shareholders would have been forewarned about the Funds' failure to price all of their portfolio securities daily, the Funds' improper valuation practices, the valuation uncertainty relating to the Funds' NAV, and the Funds' failure to adhere to the disclosed restrictions on illiquid and

below B- securities, and, being forewarned, Plaintiffs and the Class could have avoided the losses incurred by them.

173. If PwC had informed the Advisor and the Funds' board of directors, in connection with its audits of either the Funds' 1997, 1998 or 1999 financial statements that PwC was unable to render an unqualified opinion on the Funds' financial statements, as PwC did do in connection with its audits of the Funds' 2000 financial statements, or if PwC had informed the SEC and the Funds' shareholders of the above matters, the SEC would have caused the Funds to cease selling and redeeming their shares, as the SEC did do when the Funds informed the SEC that PwC was unable to render an unqualified opinion on their 2000 financial statements, thereby preventing the investments by Plaintiffs and the class in the Funds and avoiding the losses incurred by them.

The Funds' 1997, 1998 and 1999 Financial Statements Were Not
<u>Prepared In Accordance With Generally Accepted Accounting Principles</u>

174. SEC Regulation S-X ' 210.4-01(a)(1) provides that financial statements that are not prepared in accordance with generally accepted accounting principles are presumed to be misleading.

175. The SEC's Codification of Financial Reporting Policies, ' 404.03.a., requires that violations by an investment company of its investment policies and restrictions be disclosed in its financial statements or the footnotes thereto.

176. The Funds' 1997, 1998 and 1999 financial statements were not prepared, or presented, in accordance with generally accepted accounting principles because they did not disclose:

1. That a significant portion of the Funds' respective investment portfolios was required to be valued using good faith fair value procedures established by the Funds' board of

directors and describing the methods used to perform such valuations or that such required valuation using such procedures had not been done;

2. The valuation uncertainty attendant to the Funds' high-yield municipal bonds and the effect of such uncertainty on the Funds' respective net asset values;

3. With respect to the Short Duration Fund, that such uncertainty was inconsistent with, contrary to, and prohibited by the Fund's investment objective of stable net asset value and limited price fluctuation;

4. With respect to the Short Duration Fund, that the Fund's investment practices were inconsistent with, contrary to, and prohibited by its investment objective of stable NAV and limited price fluctuation;

5. With respect to both Funds, that the Funds' investment practices were inconsistent with, contrary to, and prohibited by their investment policies and restrictions limiting investments in illiquid securities and securities of less than B- credit quality; and

6. The Funds' failure to price their high-yield municipal bonds daily.

177. PwC failed to disclose in its reports on the Funds' financial statements that, by failing to disclose the Funds' violations of their respective investment objectives, policies and restrictions in their respective financial statements, the Funds were violating the SEC requirement that such violations be so disclosed.

178. In its reports on the Funds' annual financial statements for their fiscal years ended December 31, 1997, 1998 and 1999, PwC falsely stated that the Funds' financial statements were prepared in accordance with generally accepted accounting principles. PwC's statements were false because the financial statements violated the following generally accepted accounting principles:

1. The principle that financial reporting should provide information that is useful to present and potential investors in making rational investment decisions and that information should be comprehensible to those who have a reasonable understanding of business and economic activities (FASB Statement of Concepts No. 1, & 34);

2. The principle that financial reporting should be conservative and refrain from overstatement of net income or assets, choosing the alternative that provides a lower net income or assets if confronted with a decision (FASB Statement of Concepts No. 1);

3. The principle that conservatism be used as a prudent reaction to uncertainty to ensure that uncertainties and risks inherent in business situations are adequately considered (FASB Statement of Concepts No. 2, && 95, 97);

4. The principle that financial reporting should be reliable in that it represents what it purports to represent (FASB Statement of Concepts No. 2, && 58-59); and

5. The principle of materiality, which provides that the omission or misstatement of an item in a financial report is material if, in light of the surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item (FASB Statement of Concepts No. 2, & 132).

PwC's Audits Of The Funds' 1997, 1998 and 1999 Financial Statements Were <u>Not Conducted In Accordance With Generally Accepted Auditing Standards</u>

179. PwC's audits of the Funds' financial statements for its fiscal years ended December 31, 1998 and 1999 were not conducted in accordance with the following generally accepted auditing standards:

1. General Standard No. 2, in that an independence of mental attitude was not maintained by PwC during said audits;

2. General Standard No. 3, in that due professional care was not exercised in the performance of the audits and the preparation of PwC's reports on the Funds' financial statements;

3. Standard of Field Work No. 1, in that the work was not adequately planned and assistants and work were not properly supervised or reviewed;

4. Standard of Field Work No. 2, in that PwC failed to obtain a sufficient understanding of the Funds' internal control structure to plan the audits and to determine the nature, timing, and extent of tests to be performed;

5. Standard of Field Work No. 3, in that sufficient, competent evidential matter was not obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the Funds' financial statements under audit;

6. Standard of Reporting No. 1, in that PwC's reports on the Funds' financial statements for each of said years stated falsely that the Funds' financial statements were presented in accordance with generally accepted accounting principles;

7. Standard of Reporting No. 3, in that PwC's reports on the Funds' financial statements failed to provide information required by generally accepted accounting principles but not disclosed in the Funds' financial statements or the footnotes thereto, as set forth above;

8. Standard of Reporting No. 4, in that PwC's reports improperly contained unqualified opinions on the Funds' financial statements because PwC had failed to conduct its audits of the Funds' financial statements in accordance with generally accepted auditing standards and, therefore, PwC had insufficient basis for expressing such unqualified opinions;

9. PwC failed to apply appropriate audit procedures to the valuations of the Funds' high-yield municipal bonds for which multiple market quotations were not readily available;

10. PwC failed to modify its audit reports in light of the Funds' use of an improper valuation method for a significant portion of their investment portfolios;

11. PwC's audit reports failed to address the inadequacy of the valuation disclosures in the Funds' financial statements and the footnotes thereto;

12. PwC failed to modify its audit reports or call attention to the uncertainty of the Funds' respective net asset values caused by the uncertainty of the valuations of the Funds' high-yield municipal bonds for which market quotations were not readily available; and

13. PwC failed to obtain reasonable assurance as to the Funds' compliance with their respective investment objectives, policies and restrictions.

CLAIMS

180. With respect to the claims asserted herein pursuant to '' 11, 12(a)(2), and 15 of the Securities Act, this action has been commenced within one year of the date on which Plaintiffs first discovered, or should have discovered, the facts constituting the violations by the exercise of reasonable diligence.

181. The Funds offered and sold shares of their capital stock during the Class Period to Plaintiffs and other members of the Class.

182. The shares of the Funds' capital stock sold to Plaintiffs and other members of the class are securities within the meaning of the Securities Act and the ICA.

No Statutory Safe Harbor

183. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Consolidated Complaint. The statements alleged to be false and misleading herein all relate to existing facts and conditions. In addition, to the extent certain of the statements alleged to be false might be characterized as forward-looking, the specific statements pleaded herein were not identified as "forward-looking statements" when made, or if they were so identified, they were not accompanied by the requisite language adequately informing investors that actual results "could differ materially from those projected." To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statement; in fact, as set forth above, many such purportedly "cautionary" statements were themselves false and misleading because they represented that certain events "may" or "could" occur, when in fact they had already occurred, as Plaintiffs allege.

COUNT I

Violation of ' 11 of The Securities Act of 1933

184. This Count I is asserted against all Defendants.

185. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein, except to the extent any allegations contained above contain any facts which are unnecessary or irrelevant for purposes of stating a claim under Section 11, including allegations that might be interpreted to sound in fraud or relating to any state of mind on the part of Defendants other than strict liability or negligence.

186. Defendants caused to be effected a distribution of shares of the Funds' capital stock to the public pursuant to a registration statement, as amended from time to time, that was in effect during the Class Period. This registration statement contained untrue statements of material facts and omitted to state material facts required to be stated therein or necessary to make the statements in the registration statement not misleading, as set forth above.

187. Each of the Defendants, other than PwC, either signed the registration statement and the amendments thereto, was a director of Heartland Group and the Funds at the time of the filing of those portions thereof with respect to which their liability is asserted herein, consented to being named in such registration statement or amendments thereto as a director, or was a controlling person of Heartland Group and the Funds.

188. PwC consented to being named in the registration statement and the amendments thereto as having prepared or certified portions of the registration statement or as having prepared or certified reports used in connection with the registration statement. Liability is asserted herein against PwC in connection with those portions of the registration statement and amendments thereto prepared or certified by PwC or otherwise attributable to statements or reports prepared or certified by PwC and those statements therein made by PwC based on its authority and professional expertise.

189. Plaintiffs did not know that the representations made to them by Defendants regarding the matters described above were untrue and did not know the material facts that were not disclosed.

190. PwC

1. Performed accounting and auditing services in connection with such registration statements and each and every amendment thereto during the Class Period;

2. Reviewed, or was required to review, those disclosures in such registration statements and amendments thereto related to matters for which it had responsibility as the auditor of the Funds' financial statements; and

3. Reviewed, or was required to review, the extent to which the Funds were managed in a manner consistent with their respective investment objectives, policies and restrictions as disclosed in such registration statements and otherwise and in compliance with applicable laws, rules and regulations applicable to registered investment companies.

191. The Funds and their board of directors and their shareholders and prospective shareholders relied upon the expertise of PwC with respect to those matters for which, as the auditor of the Funds' financial statements, PwC was responsible in connection with such registration statements.

192. Plaintiffs and the other members of the Class are entitled to recover from Defendants pursuant to ' 11 of the Securities Act damages as follows:

1. With respect to shares purchased, including shares purchased upon reinvesting dividends paid by the Funds in respect of such shares, during the Class Period and held on the date this suit was initiated, damages in an amount equal to the difference between the amount paid therefor (including any "load" or commission paid in connection with the purchase of such shares), but not to exceed the price at which the shares were offered to the public, and the net asset value of such shares on the date this action was initiated without reduction for dividends paid in respect of such shares and without interest;

2. With respect to shares purchased, including shares purchased upon reinvesting dividends paid by the Funds in respect of such shares, during the Class Period and redeemed before

this action was initiated, damages in an amount equal to the difference between the amount paid therefor (including the "load" or commission paid in connection with the purchase of such shares), but not to exceed the price at which the shares were offered to the public, and the price at which such shares were redeemed without reduction for dividends paid in respect of such shares and without interest; or

3. With respect to shares purchased, including shares purchased upon reinvesting dividends paid by the Funds in respect of such shares, during the Class Period and redeemed after this action was initiated but before judgment, damages in an amount equal to the difference between the amount paid therefor (including the "load" or commission paid in connection with the purchase of such shares), but not to exceed the price at which the shares were offered to the public, and the price at which such shares were redeemed (if such damages shall be less than the damages representing the difference between the amount paid for the shares and the net asset value thereof at the time this suit was brought) without reduction for dividends paid in respect of such shares and without interest.

COUNT II

Violation of ' 12(a)(2) of the Securities Act of 1933

193. This Count II is asserted against all Defendants except PwC.

194. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein, except to the extent any allegations contained above contain any facts which are unnecessary or irrelevant for purposes of stating a claim under Section 12, including allegations that might be interpreted to sound in fraud or relating to any state of mind on the part of Defendants other than strict liability or negligence.

195. Defendants offered and sold a security, namely shares of the Funds' common stock, by means of a prospectus or were controlling persons of the Funds or of those who offered and sold the Funds' shares. This prospectus contained untrue statements of material facts and omitted to state material facts necessary in order to make the statements, in light of the circumstances under which they were made, not misleading, which statements and omissions Defendants knew, or in the exercise of reasonable care Defendants would have known, were false or were material facts which were required to be disclosed to avoid the representations which were made from being misleading.

196. Defendants Advisors and Heartland Group actively solicited the sale of the Funds' shares to serve their own financial interests. Heartland Group received the proceeds of those sales, and Advisors received management fees based on the aggregate net assets of the Funds.

197. Plaintiffs did not know that the representations made to them by Defendants regarding the matters described above were untrue and did not know the material facts that were not disclosed.

198. As a result of the matters set forth herein, pursuant to ' 12(a)(2) of the Securities Act, Plaintiffs and Class members are entitled to recover the consideration paid for such security with interest thereon, less the amount of any income received thereon, upon the tender of such security, or for damages if they no longer own such shares.

199. Plaintiffs, and assuming a class is certified, Class members who do not opt out, hereby tender their shares in the Funds.

200. Defendants are liable to Plaintiffs and class members pursuant to '' 12(a)(2) of the Securities Act as sellers of the Funds' shares or as controlling persons of the Funds or of Advisors, which offered and sold the Funds' shares.

COUNT III

Against the Director Defendants For Liability Under Section 15 of the Securities Act

201. This Count III is brought pursuant to Section 15 of the Securities Act, 15 U.S.C. ' 77o, against the Individual Defendants and Advisors.

202. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein, except to the extent any allegations contained above contain any facts which are unnecessary or irrelevant for purposes of stating a claim under Section 15, including allegations that may be interpreted to sound in fraud or relating to any state of mind on the part of defendant other than strict liability or negligence.

203. Each of the Individual Defendants and Advisors was a control person of Heartland Group and the Funds by virtue of his or her position as a director or senior officer or its position as the manager of, and investment advisor to, the Funds.

204. Each of the Director Defendants and Advisors was a participant in the violations of Sections 11 and 12(a)(2) of the Securities Act alleged in Counts I and II above, based on his or her having signed the registration statements and/or having otherwise participated in the process which allowed the offerings of the Funds' shares to be successfully completed.

COUNT IV

Violation of Investment Company Act ' 34(b)

205. This Count IV is asserted against all Defendants.

206. Defendants (i) made untrue statements of material facts in a registration statement, amendments thereto, reports, records and other documents filed or transmitted pursuant to the ICA, or the keeping of which is required pursuant to ' 31(a) of the ICA and (ii) omitted to state therein

facts necessary in order to prevent the statements made therein, in light of the circumstances under which they were made, from being materially misleading, all as set forth above.

207. For purposes of ' 34(b) of the ICA, any part of any registration statement, reports, records and other documents filed or transmitted pursuant to the ICA which is signed or certified by an accountant or auditor in its capacity as such shall be deemed to be made, filed, transmitted, or kept by such accountant or auditor, as well as by the person filing, transmitting, or keeping the complete document. Defendant directors signed the Funds' registration statement and amendments thereto and signed the Funds' reports on the Funds' internal controls pursuant to SEC Form N-SAR. PwC signed its reports regarding the Funds' financial statements for their fiscal years ended December 31, 1998 and 1999 and certified such financial statements, which were part of the Funds' registration statement, as amended from time to time during the Class Period, and signed its reports on the Funds' internal controls pursuant to SEC Form N-SAR.

208. By engaging in the conduct described herein, Defendants violated ' 34(b) of the ICA, as amended, and, pursuant to ' 1(b)(1) and (5) of the ICA, the interests of those who invested in the Funds were adversely affected because (i) such investors purchased, paid for, exchanged, received dividends upon, voted, refrained from voting, sold, or surrendered shares issued by the Funds without adequate, accurate, and explicit information, fairly presented, concerning the character of such shares and the circumstances, policies, and financial responsibility of the Funds and their management and (ii) the Funds, in keeping their accounts, in maintaining reserves, and in computing their earnings and the asset value of their outstanding securities, employed unsound or misleading methods, and were not subjected to adequate independent scrutiny.

209. As a result of such conduct, pursuant to ' 47(b) of the ICA, Plaintiffs and the other members of the Class are entitled to rescind their purchases of the Funds' shares during the Class Period or are otherwise entitled to damages in an amount to be proved at trial.

COUNT V

Violation of Investment Company Act ' 22

210. This Count V is asserted against all Defendants.

211. Section 22(e) of the ICA and ICA Rule 22c-1 required the Funds to price, sell and redeem their shares at the net asset value per share of such shares. The Funds' respective net asset values were to be computed for any day on which they were open for trading.

212. Each of the Funds sold or redeemed its shares on every business day of the Class Period.

213. The Funds' failure to price their high-yield municipal bonds on every day of the Class Period on which they sold or redeemed their shares violated ICA ' 22.

214. Pursuant to ICA ' 22, an open-end fund that does not price its portfolio securities every day is prohibited from selling or redeeming its shares.

215. As a result of such conduct, pursuant to ' 47(b) of the ICA, Plaintiffs and the other members of the Class are entitled to rescind their purchases of the Funds' shares during the Class Period or are otherwise entitled to damages in an amount to be proved at trial.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs, on behalf of themselves and the other members of the class, pray for judgment against Defendants as follows:

216. Declaring this action to be a proper class action;

217. Awarding Plaintiffs and the other members of the class rescission or compensatory or rescissory damages;

218. Awarding to Plaintiffs and the other members of the class prejudgment interest in the manner and at the maximum rate permitted by law;

219. Awarding to Plaintiffs and the other members of the class costs and expenses of this litigation, including reasonable attorneys' fees and costs, including experts' fees and costs; and

220. Granting such other and further relief as the Court may deem just and proper.

DEMAND FOR JURY TRIAL

Plaintiffs demand a trial by jury of all issues so triable.

Dated: October 15, 2003

BERMAN DEVALERIO PEASE TABACCO BURT & PUCILLO

By: ______________________________

C. Oliver Burt, III, Esq.
Lauren S. Dadario, Esq.
Northbridge Centre, Suite 1701
515 North Flagler Drive
West Palm Beach, FL 33401
Tel: 561/835-9400
Fax: 561/835-0322
e-mail: lawfla@bermanesq.com

Jeffrey C. Block, Esq.
Norman Berman, Esq.
One Liberty Square
8th Floor
Boston, MA 02109
Tel: 617/542-8300
Fax: 617/542-1194
e-mail: law@bermanesq.com

Lead Counsel

HALE & WAGNER
K. Scott Wagner, Esq.
Christopher T. Hale, Esq.
Amy V. Kossoris, Esq.
205 E. Wisconsin Avenue
Suite 300
Milwaukee, WI 53202-4207
Tel: 414/278-7000

Liaison Counsel

LASKY & RIFKIND, LTD.
Leigh R. Lasky, Esq.
Norman Rifkind, Esq.
11 S. LaSalle Street
Suite 1600
Chicago, IL 60603
Tel: 312/634-0057
Fax: 312/634-0059

KEVIN M. FORDE, LTD.
Kevin M. Forde, Esq.
Janice R. Forde, Esq.
Kevin R. Malloy, Esq.
111 W. Washington Street
Chicago, Il 60602
Tel: 312/641-1441

HEAD SEIFERT & VANDER WEIDE
Vernon J. Vander Weide, Esq.
Thomas V. Seifert, Esq.
333 South Seventh Street
Suite 1140
Minneapolis, MN 55402
Tel: 612/339-1601
Fax: 612/339-3372

CHESTNUT & CAMBRONNE
Karl Cambronne, Esq.
3700 Piper Jaffray Tower
222 S. 9th Street
Suite 3700
Minneapolis, MN 55402
Tel: 612/339-7300
Fax: 612/336-2940

MAIER, MCILNAY & SCHMITT, LTD.
Mark S. Schmitt, Esq.
Grafton State Bank, Suite 603
101 Falls Road
Grafton, Wisconsin 53024
Tel: 262/376-1287
Fax: 262/376-1289

MILBERG WEISS BERSHAD HYNES &
LERACH, LLP
Steven G. Schulman, Esq.
Samuel H. Rudman, Esq.
One Pennsylvania Avenue
49th Floor
New York, NY 10119
Tel: 212/594-5300
Fax: 212/868-1229

SOUTHSIDE LAW OFFICE
Robert K. O'Reilly, Esq.
3181 S. 27th Street
Milwaukee, WI 53215-1462
Tel: 414/671-1000
Fax: 414/671-1001

VON BRIESEN PURTELL & ROPER

Robert L. Gegios, Esq.
Eric N. Mathison, Esq.
P.O. Box 3262
735 N. Water Street
Suite 1000
Milwaukee, WI 53201-3262
Tel: 414/273-7000
Fax: 414/276-6281

SHALOV STONE & BONNER
Ralph M. Stone, Esq.
276 5th Avenue
Suite 704
New York, NY 10001
Tel: 212/686-8004
Fax: 212/686-8005

WEINSTEIN KITCHENOFF SCARLATO &
GOLDMAN

Paul Scarlato, Esq.
1608 Walnut Street
Suite 1400
Philadelphia, PA 19103
Tel: 215/545-7200
Fax: 215/545-6535

SCHIFFRIN & BARROWAY
Marc A. Topaz, Esq.
3 Bala Plaza East
Suite 400
Bala Cynwyd, PA 19004
Tel: 610/667-7706
Fax: 610/667-7056

DONOVAN SEARLES, LLC
Michael Donovan, Esq.
1608 Walnut Street
Suite 1400
Philadelphia, PA 19103
Tel: 215/732-6020
Fax: 215/732-8060

SPECTOR ROSEMAN & KODROFF
Jeffrey Kodroff, Esq.

1818 Market Street
25th Floor
Philadelphia, PA 19103
Tel: 215/496-0300
Fax: 215/496-6611

CAULEY GELLER BOWMAN
& COATES, LLP
Steven E. Cauley, Esq.
11311 Arcade Drive
Suite 201
Little Rock, AR 72212
Tel: 501/312-8500
Fax: 501/312-8505

KIRBY MCINERNEY & SQUIRE
Ira M. Press, Esq.
Mark A. Strauss, Esq.
Lewis Sandler, Esq.
830 3rd Avenue
New York, NY 10022
Tel: 212/371-6600
Fax: 212/751-2540

REINHARDT & ANDERSON
Mark Reinhardt, Esq.
332 Minnesota Street
Suite 1000
St. Paul, MN 55101-1312
Tel: 612/227-9990
Fax: 612/297-6543

ROBERT L. ELLIOTT ATTORNEY AT LAW
Robert L. Elliott, Esq.
633 West Wisconsin Avenue
Suite 100
Milwaukee, WI 53203
Tel: 414/225-9000
Fax: 415/225-9063

LOCKRIDGE GRINDAL NAUEN
Richard A. Lockridge, Esq.
Gregg M. Fishbein, Esq.

100 Washington Avenue South
Suite 2200
Minneapolis, MN 55401
Tel: 612/339-6900
Fax: 612/339-0981

CUBBIE LAW OFFICE
Rodney L. Cubbie, Esq.
735 N. Water Street
Suite 536
Milwaukee, WI 53202
Tel: 414/291-9741
Fax: 414/291-9792

KAPLAN KILSHEIMER & FOX
Robert N. Kaplan, Esq.
Hae Sung Nam, Esq.
805 3rd Avenue
22nd Floor
New York, NY 10017
Tel: 212/687-1980
Fax: 212/687-7714

SAUNDERS LAW OFFICE
Terry Rose Saunders, Esq.
30 N. LaSalle Street
Suite 3200
Chicago, IL 60602
Tel: 312/346-4456
Fax: 312/551-4467

TIGHE PATTON ARMSTRONG
TEASDALE PLLC
Thomas Earl Patton, Esq.
1747 Pennsylvania Avenue, N.W.
Suite 300
Washington, D.C. 20006-4906
Tel: 202/293-0398
Fax: 202/393-0363

SCHATZ & NOBEL, P.C.
Andrew M. Schatz, Esq.
330 Main Street
2nd Floor

Hartford, CT 06106
Tel: 860/493-6292
Fax: 860/493-6290

LAW OFFICES OF MARK MCNAIR
Mark McNair, Esq.
1819 H Street, N.W.
Suite 550
Washington, D.C. 20006
Tel: 202/872-4717
Fax: 202/466-5734

LEBLANC MAPLES & WADDELL, L.L.C.
Jody Anderman, Esq.
The Essen Centre - Suite 420
5353 Essen Lane
Baton Rouge, LA 70809
Tel: 225/768-7222
Fax: 225/768-7999

RABIN & PECKEL
Marvin L. Frank, Esq.
275 Madison Avenue
New York, NY 10016
Tel: 212/682-1818
Fax: 212/682-1892

WARSHAFSKY ROTTER TARNOFF
REINHARDT & BLOCH
Robert P. Goldstein, Esq.
839 N. Jefferson Street
6th Floor
Milwaukee, WI 53202-3740
Tel: 414/276-4970

LEIFF CABRASER HEIMANN
& BERNSTEIN
Melanie M. Piech, Esq.
Embarcadero Center West
275 Battery Street
30th Floor
San Francisco, CA 94111
Tel: 415/956-1000

RODRIGUEZ & RICHARDS, LLC
Ira Richards, Esq.
3 Kings Highway East
Haddonfield, NJ 08033
Tel: 856/795-9002

SUSAN LACAVA, S.C.
Susan LaCava, Esq.
23 N. Pinckney Street
Suite 300
Madison, WI 53703

FINKELSTEIN, THOMPSON
& LOUGHRAN
Burton H. Finkelstein, Esq.
Donald J. Enright, Esq.
Tracy D. Razvani, Esq.
1055 Thomas Jefferson Street, N.W.
Suite 601
Washington, DC 20007

KRAUSE & KALFAYAN
James C. Krause, Esq.
1010 2nd Avenue
Suite 1750
San Diego, CA 92101

BISCHOFF, KENNEY & NIEHAUS
Kevin J. Kenney, Esq.
Charles D. Neihaus, Esq.
5630 North Main Street
Sylvania, OH 43560
Tel: 419/882-0594
Fax: 419/885-2042

MURRAY & MURRAY CO., L.P.A.
Dennis E. Murray, Jr., Esq.
Barbara Quinn Smith, Esq.
111 East Shoreline Drive
P.O. Box 19
Sandusky, OH 44871-0019
Tel: 419/624-3000
Fax: 419/624-0707

COHEN MILSTEIN HAUSFELD & TOLL
Steven J. Toll, Esq.
Andrew N. Friedman, Esq.
West Tower, Suite 500
1100 New York Avenue, N.W.
Washington, DC 20005-3934
Tel: 202/408-4600

ROBERT B. CORRIS, S.C.
Robert B. Corris, Esq.
735 North Water Street
Suite 1440
Milwaukee, WI 53202
Tel: 414/272-8000

Plaintiffs' Counsel

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via U.S. Mail to all counsel on the attached Service List, this _____ day of _________________, 2001.

____
C. OLIVER BURT, III

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