

WINLAND HOLDINGS CORPORATION

A Minnesota Corporation

424 North Riverfront Drive, Suite 200, Mankato, MN 56001
(507) 625-7231
www.winland.com
investors@winland.com

SIC Code: 3823

Quarterly Report **For the Period Ending: September 30, 2023 (the “Reporting Period”)**

Outstanding Shares

The number of shares outstanding of our Common Stock was:

4,756,369 as of September 30, 2023

4,618,063 as of December 31, 2022

Shell Status

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933, Rule 12b-2 of the Exchange Act of 1934 and Rule 15c2-11 of the Exchange Act of 1934):

Yes: ☐

No: ☒

Indicate by check mark whether the company’s shell status has changed since the previous reporting period:

Yes: ☐

No: ☒

Change in Control

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period:

Yes: ☐

No: ☒

1) Name and address(es) of the issuer and its predecessors (if any)

Winland Holdings Corporation
(Formerly known as Winland Electronics, Inc. Name change effective January 1, 2018.)

Issuer is a corporation incorporated in the State of Minnesota on October 18, 1972. Current standing: Active.

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors: *None*.

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months: On April 24, 2023, the Company, through its wholly-owned subsidiary Winland Mining LLC, acquired 32 Bitmain S19 XP (average 140 TH/S) cryptocurrency miners from FRMO Corporation in exchange for 59,036 shares of the Company's common stock. On August 10, 2023, the Company, through its wholly-owned subsidiary Winland Mining LLC, acquired 50 Bitmain S19 XP 141 TH/S cryptocurrency miners from FRMO Corporation in exchange for 79,270 shares of the Company's common stock.

Issuer's principal executive office and place of business address is: 424 North Riverfront Drive, Suite 200, Mankato, MN 56001

The address(es) of the issuer's principal place of business:

☒ *Check if principal executive office and principal place of business are the same address*

Has the issuer or any of its predecessors ever been in bankruptcy, receivership, or any similar proceeding in the past five years?

No: ☒ Yes: ☐

2) Security Information

Transfer Agent

Name: Computershare
Phone: 800-368-5948
Email: web.queries@computershare.com
Address: 150 Royall Street, Canton, MA 02021

Trading symbol: WELX
Exact title and class of securities outstanding: Common Stock
CUSIP: 97424Q106
Par or stated value: \$0.01

Total shares authorized:	19,940,000	as of date: September 30, 2023
Total shares outstanding:	4,756,369	as of date: September 30, 2023
Total number of shareholders of record:	250	as of date: September 30, 2023

Is the Transfer Agent registered under the Exchange Act? Yes: ☒ No: ☐

Security Description:

- For common equity, describe any dividend, voting and preemption rights.
Holders of the Company's common stock are entitled to one vote per share. Holders of the Company's common stock have identical rights. Holders of the Company's common stock will be entitled to share equally, on a per share basis, in any dividends that our Board of Directors may determine to issue from time to time.
- For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions. *Not applicable*
- Describe any other material rights of common or preferred stockholders. *Not applicable*
- Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report. *Not applicable*

3) Issuance History

A. Changes to the Number of Outstanding Shares

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: ☐ Yes: ☒ (If yes, you must complete the table below)

Number of Shares outstanding as of January 1, 2021	Opening Balance: Common: <u>4,504,869</u> Preferred: <u>0</u>								
Date of Transaction	Transaction type (e.g. new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to (entities must have individual with voting / investment control disclosed).	Reason for share issuance (e.g. for cash or debt conversion) OR Nature of Services Provided (if applicable)	Restricted or Unrestricted as of this filing?	Exemption or Registration Type?
<u>2/16/2021</u>	<u>New Issuance</u>	<u>26,333</u>	<u>Common</u>	<u>\$4.95</u>	<u>No</u>	<u>Lorin E. Krueger</u>	<u>Options Exercised</u>	<u>Unrestricted</u>	<u>Securities Act Section 4(a)(2)</u>
<u>3/2/2021</u>	<u>New Issuance</u>	<u>17,021</u>	<u>Common</u>	<u>\$4.70</u>	<u>No</u>	<u>Thomas J. Brady</u>	<u>Options Exercised</u>	<u>Unrestricted</u>	<u>Securities Act Section 4(a)(2)</u>
<u>9/8/2021</u>	<u>New Issuance</u>	<u>52,560</u>	<u>Common</u>	<u>\$4.14</u>	<u>No</u>	<u>FRMO Corporation/ Steven M. Bregman</u>	<u>Acquisition</u>	<u>Restricted</u>	<u>Securities Act Section 4(a)(2)</u>
<u>3/31/2022</u>	<u>New Issuance</u>	<u>17,280</u>	<u>Common</u>	<u>\$3.75</u>	<u>No</u>	<u>Thomas J. Brady</u>	<u>Options Exercised</u>	<u>Restricted</u>	<u>Securities Act Section 4(a)(2)</u>
<u>4/24/2023</u>	<u>New Issuance</u>	<u>59,036</u>	<u>Common</u>	<u>\$2.09</u>	<u>No</u>	<u>FRMO Corporation/ Steven M. Bregman</u>	<u>Acquisition</u>	<u>Restricted</u>	<u>Securities Act Section 4(a)(2)</u>
<u>8/10/2023</u>	<u>New Issuance</u>	<u>79,270</u>	<u>Common</u>	<u>\$2.09</u>	<u>No</u>	<u>FRMO Corporation/ Steven M. Bregman</u>	<u>Acquisition</u>	<u>Restricted</u>	<u>Securities Act Section 4(a)(2)</u>
Shares Outstanding on September 30, 2023:	Ending Balance: Common: <u>4,756,369</u> Preferred: <u>0</u>								

B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities:

No: ☒ Yes: ☐ (If yes, you must complete the table below)

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder	Reason for Issuance (e.g. Loan, Services, etc.)
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4) Issuer's Business, Products and Services

Winland Holdings Corporation ("Winland" or the "Company") is the holding company for Winland Electronics, Inc. ("Winland Electronics"), Winland Capital Corporation ("Winland Capital Corp."), and Winland Mining LLC ("Winland Mining"), all wholly-owned subsidiaries of the Company. The contact information for the Company and subsidiaries is as follows:

424 North Riverfront Drive, Suite 200
Mankato, MN 56001
800-635-4269
investors@winland.com

Winland Electronics is an industry leader in critical condition monitoring devices. Products including EnviroAlert Professional, EnviroAlert, WaterBug, and TempAlert are designed in-house to monitor critical conditions and protect against loss of assets due to damage from water, excess humidity, extremes of temperature, and loss of power, among others, across industries including health and medical, grocery and food services, commercial and industrial, as well as agriculture and residential. Winland Electronics markets and sells its line of proprietary critical condition monitoring hardware and subscription service products primarily through a global network of distributors, dealers, security installers and integrators. Winland Electronics' products are compatible with any hardwired or wireless alarm system. Winland Electronics also offers a critical environment monitoring solution called INSIGHT, an automated, cloud-based platform that provides early alerting, reporting, and logging services designed to ensure regulatory compliance.

Winland Capital Corp. is the holding company for the Company's investment operations and includes wholly-owned subsidiaries Winland Credit Partners LLC ("Winland Credit") and Winland Capital Management LLC ("Winland Capital").

Winland Mining is the Company's cryptocurrency mining business and currently operates approximately 195 Bitmain S19 95 TH/S, 29 Canaan Avalon Miner 1246 90 TH/S, 32 Bitmain S19 XP (average 140 TH/S), and 50 Bitmain S19 XP 141 TH/S cryptocurrency miners. Winland Mining has entered into a services agreement with Horizon Kinetics LLC to engage with cryptocurrency mining hosting facilities on Winland Mining's behalf and to support its cryptocurrency mining operations by performing certain services from time to time.

The Company continues to explore various alternatives to enhance shareholder value that utilize the expertise of management and the Board of Directors. Such alternatives may include establishing new ventures, acquiring existing businesses, and other investment opportunities, including investments in private credit, various rights to payment (including bankruptcy claims), marketable securities, and cryptocurrency-related assets.

5) Issuer's Facilities

The Company currently occupies 1,033 square feet of office space at 424 North Riverfront Drive, Suite 200, Mankato, MN, which is leased from Fisher Exchange LLC. The property is in good condition and suitable for the Company's current use. See Note 15.

6) Officers, Directors, and Control Persons

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
Matthew D. Houk	Chairman, Chief Executive Officer, and Chief Financial Officer	New Vernon, NJ	673,037	Common	14.2%	(1)
Thomas J. Brady	Director	Maple Grove, MN	55,799	Common	1.2%	(2)
Lorin E. Krueger	Director	Mankato, MN	120,240	Common	2.5%	(3)
Steven M. Bregman	Director	Dobbs Ferry, NY	1,614,683	Common	33.9%	(4)

- 1) According to Matthew D. Houk, as of September 30, 2023, he beneficially owns and has sole power to vote or to dispose of 477,799 shares. Mr. Houk shares power to vote or to dispose of 195,238 shares beneficially owned by David B. Houk. The address for Mr. Houk is c/o Horizon Kinetics LLC, 470 Park Avenue South, 4th Floor, New York, NY 10016.
- 2) According to Thomas J. Brady, as of September 30, 2023, he beneficially owns and has sole power to vote or to dispose of 53,644 shares. Mr. Brady shares power to vote or to dispose of 2,155 shares held by Mr. Brady's spouse.
- 3) According to Lorin E. Krueger, as of September 30, 2023, he beneficially owns and has sole power to vote or dispose of 120,240 shares.
- 4) According to Steven M. Bregman, as of September 30, 2023, 1,589,244 shares are beneficially owned by FRMO Corp., which has sole power to vote or to dispose of such shares. 25,439 shares are beneficially owned by Horizon Common, Inc., which has sole power to vote or to dispose of such shares. Mr. Bregman, President, CFO, and Director and an owner of more than 5% of FRMO Corp., is designated as the control person. Mr. Bregman, President and Director and an owner of more than 5% of Horizon Common, Inc., is designated as the control person. The address for FRMO Corp. is One North Lexington Ave., Suite 12C, White Plains, NY 10601. The address for Horizon Common, Inc. is One North Lexington Ave., Suite 12C, White Plains, NY 10601.

Name of Control Person

FRMO Corporation, which acquired greater than 5% of the Company's outstanding common stock on November 14, 2014. Steven M. Bregman, President, CFO, and Director and an owner of more than 5% of FRMO Corporation, is designated as the control person.

Matthew D. Houk, who acquired greater than 5% of the Company's outstanding common stock on October 9, 2012.

7) Legal/Disciplinary History

A. Please identify whether any of the persons listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
None.

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
None.

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
None.

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.
None.

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

None.

8) Third Party Providers

Please provide the name, address, telephone number and email address of each of the following outside providers:

Securities Counsel

Firm:	Fredrikson & Byron, P.A.
Nature of Services:	Counsel
Address 1:	60 South Sixth Street, Suite 1500
Address 2:	Minneapolis, MN 55402-4400
Phone:	(612) 492-7000
Email:	rbrauer@fredlaw.com

Accountant or Auditor

Firm:	Baker Tilly US, LLP
Address 1:	225 South Sixth Street Suite 2300
Address 2:	Minneapolis, MN 55402-4661
Phone:	(612) 876-4500
Email:	cpa@bakertilly.com

9) **Consolidated Financial Statements**

A. The following consolidated financial statements were prepared in accordance with:

- ☒ U.S. GAAP
☐ IFRS

B. The consolidated financial statements for this reporting period were prepared by (name of individual):

Name: **Matthew D. Houk**
Title: **Chairman, CEO & CFO**
Relationship to Issuer: **Director & Officer of Issuer**

Describe the qualifications of the person or persons who prepared the financial statements: *Matthew D. Houk serves as Chief Executive Officer, Chief Financial Officer, and Chairman of the Board of Directors. He is a Portfolio Manager and Research Analyst at Horizon Kinetics LLC ("Horizon"), an investment management services firm. Mr. Houk has been with Horizon since August 2008. Mr. Houk is responsible for identifying, analyzing, and monitoring investment opportunities and portfolio companies for Horizon. Mr. Houk is also a Co-Portfolio Manager for several registered investment companies at Horizon. Previously, Mr. Houk was with Goldman, Sachs & Co., a global investment banking, securities, and investment management firm, which he joined in August 2005. Mr. Houk holds a B.A. in Economics and Political Science from Yale University. Through his work in investment management, Mr. Houk brings to the Company an ability to assess and oversee corporate and financial performance.*

9) Consolidated Financial Statements (Continued)

WINLAND HOLDINGS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	September 30, 2023	December 31, 2022
	(unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 794	\$ 961
Accounts receivable, less allowance for doubtful accounts of \$8 as of both September 30, 2023 and December 31, 2022 (Note 2)	690	824
Inventories (Note 4)	1,087	615
Prepaid expenses and other assets	206	136
Total current assets	2,777	2,536
Property and Equipment, at cost		
Property and equipment	1,092	829
Less accumulated depreciation	673	527
Net property and equipment (Note 14)	419	302
Long-term investments	1	1
Long-term marketable securities (Note 8)	1	6
Long-term rights to payment (Note 11)	350	350
Operating lease right of use asset (Note 15)	25	11
Cryptocurrency (Note 13)	1,151	1,106
Total long-term assets	1,528	1,474
Total assets	\$ 4,724	\$ 4,312
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 614	\$ 533
Operating lease liability (Note 15)	8	9
Accrued liabilities:		
Compensation	69	67
Other current liabilities	15	15
Total current liabilities	706	624
Long-Term Liabilities		
Operating lease liability (Note 15)	17	2
Total long-term liabilities	17	2
Total liabilities	723	626
Stockholders' Equity		
Common stock, par value \$0.01 per share; authorized 19,940,000 shares; issued and outstanding 4,756,369 as of September 30, 2023 and 4,618,063 as of December 31, 2022.	48	46
Additional paid-in capital	6,132	5,845
Accumulated deficit	(2,179)	(2,205)
Total stockholders' equity	4,001	3,686
Total liabilities and stockholders' equity	\$ 4,724	\$ 4,312

See Notes to Condensed Consolidated Financial Statements

9) Consolidated Financial Statements (Continued)

WINLAND HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Share and Per Share Data)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales				
Product and services (Notes 2 and 7)	\$ 1,157	\$ 945	\$ 2,878	\$ 2,841
Cryptocurrency (Note 13)	146	175	430	821
Total net sales	1,303	1,120	3,308	3,662
Cost of sales				
Product and services	709	572	1,797	1,799
Cryptocurrency	165	181	496	476
Total cost of sales	874	753	2,293	2,275
Gross profit	429	367	1,015	1,387
Operating expenses:				
General and administrative	163	130	488	383
Sales and marketing	112	91	355	333
Research and development	16	166	179	419
Disposal of equipment (Note 16)	-	-	9	-
Total operating expenses	291	387	1,031	1,135
Operating income (loss)	138	(20)	(16)	252
Other income (expense) (Note 9)	32	(41)	42	(986)
Net income (loss)	\$ 170	\$ (61)	\$ 26	\$ (734)
Income (Loss) per common share data:				
Basic	\$ 0.04	\$ (0.02)	\$ 0.01	\$ (0.16)
Diluted	\$ 0.04	\$ (0.02)	\$ 0.01	\$ (0.16)
Weighted-average number of common shares outstanding:				
Basic	4,721,042	4,618,063	4,667,471	4,612,429
Diluted	4,721,042	4,618,063	4,667,471	4,612,429

See Notes to Condensed Consolidated Financial Statements

9) Consolidated Financial Statements (Continued)

WINLAND HOLDINGS CORPORATION
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands, Except Share Data)
(unaudited)

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-In Capital	Deficit	Total
Balance on December 31, 2021	4,600,783	\$ 46	\$ 5,845	\$ (1,207)	\$ 4,684
Exercise of stock options	17,280	-	-	-	-
Net income	-	-	-	75	75
Balance on March 31, 2022	4,618,063	\$ 46	\$ 5,845	\$ (1,132)	\$ 4,759
Net loss	-	-	-	(748)	(748)
Balance on June 30, 2022	4,618,063	\$ 46	\$ 5,845	\$ (1,880)	\$ 4,011
Net loss	-	-	-	(61)	(61)
Balance on September 30, 2022	4,618,063	\$ 46	\$ 5,845	\$ (1,941)	\$ 3,950
Balance on December 31, 2022	4,618,063	\$ 46	\$ 5,845	\$ (2,205)	\$ 3,686
Net loss	-	-	-	(85)	(85)
Balance on March 31, 2023	4,618,063	\$ 46	\$ 5,845	\$ (2,290)	\$ 3,601
Issuance of stock for equipment (Note 13)	59,036	1	123	-	124
Net loss	-	-	-	(59)	(59)
Balance on June 30, 2023	4,677,099	\$ 47	\$ 5,968	\$ (2,349)	\$ 3,666
Issuance of stock for equipment (Note 13)	79,270	1	164	-	165
Net income	-	-	-	170	170
Balance on September 30, 2023	4,756,369	\$ 48	\$ 6,132	\$ (2,179)	\$ 4,001

See Notes to Condensed Consolidated Financial Statements

9) Consolidated Financial Statements (Continued)

WINLAND HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(unaudited)

	For the Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities		
Net income (loss)	\$ 26	\$ (734)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	169	172
Net loss from marketable securities	5	10
Net gain from rights to payment	(3)	-
Net loss on disposal of equipment	9	-
Decrease in allowance for obsolete inventory	(8)	(33)
Changes in assets and liabilities:		
Accounts receivable	134	(7)
Inventories	(464)	(169)
Cryptocurrency	(45)	466
Prepaid expenses and other assets	(70)	(29)
Accounts payable	81	150
Accrued liabilities	2	(6)
Net cash used in operating activities	(164)	(180)
Cash flows from investing activities		
Proceeds from rights to payment	3	-
Purchases of property and equipment	(6)	(48)
Net cash used in investing activities	(3)	(48)
Net decrease in cash and cash equivalents	(167)	(228)
Cash and cash equivalents		
Beginning	961	1,492
Ending	<u>\$ 794</u>	<u>\$ 1,264</u>
Non-cash investing and financing activities:		
Issuance of common stock for equipment (Note 13)	289	-
Operating lease right of use asset obtained in exchange for operating lease liability (Note 15)	21	-
See Notes to Condensed Consolidated Financial Statements		

9) Consolidated Financial Statements (Continued)

Note 1. Basis of Presentation and Nature of Business

The accompanying unaudited condensed consolidated financial statements have been prepared by Winland Holdings Corporation (“Winland” or the “Company”) in accordance with accounting principles generally accepted in the United States of America for the preparation of interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Financial results for the nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

The condensed consolidated balance sheet at December 31, 2022 has been derived from the audited financial statements as of that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statement presentation.

This financial information should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report for the year ended December 31, 2022.

Management is required to make certain estimates and assumptions which affect the amounts of assets, liabilities, revenue, and expenses reported. Actual results could differ materially from these estimates and assumptions.

The Company evaluates events through the date the consolidated financial statements are filed for events requiring adjustment to or disclosure in the consolidated financial statements.

Nature of Business:

Winland Holdings Corporation (“Winland” or the “Company”) is the holding company for Winland Electronics, Inc. (“Winland Electronics”), Winland Capital Corporation (“Winland Capital Corp.”), and Winland Mining LLC (“Winland Mining”), all wholly-owned subsidiaries of the Company.

Winland Electronics is an industry leader in critical condition monitoring devices. Products including EnviroAlert Professional, EnviroAlert, WaterBug, and TempAlert are designed in-house to monitor critical conditions and protect against loss of assets due to damage from water, excess humidity, extremes of temperature, and loss of power, among others, across industries including health and medical, grocery and food services, commercial and industrial, as well as agriculture and residential. Winland Electronics markets and sells its line of proprietary critical condition monitoring hardware and subscription service products primarily through a global network of distributors, dealers, security installers and integrators. Winland Electronics’ products are compatible with any hardwired or wireless alarm system. Winland Electronics also offers a critical environment monitoring solution called INSIGHT, an automated, cloud-based platform that provides early alerting, reporting, and logging services designed to ensure regulatory compliance.

Winland Capital Corp. is the holding company for the Company’s investment operations and includes wholly-owned subsidiaries Winland Credit Partners LLC (“Winland Credit”) and Winland Capital Management LLC (“Winland Capital”).

Winland Mining is the Company’s cryptocurrency mining business and currently operates approximately 195 Bitmain S19 95 TH/S, 29 Canaan Avalon Miner 1246 90 TH/S, 32 Bitmain S19 XP (average 140 TH/S), and 50 Bitmain S19 XP 141 TH/S cryptocurrency miners. Winland Mining has entered into a services agreement with Horizon Kinetics LLC to engage with cryptocurrency mining hosting facilities on Winland Mining’s behalf and to support its cryptocurrency mining operations by performing certain services from time to time.

The Company continues to explore various alternatives to enhance shareholder value that utilize the expertise of management and the Board of Directors. Such alternatives may include establishing new ventures, acquiring existing businesses, and other investment opportunities, including investments in private credit, various rights to payment (including bankruptcy claims), marketable securities, and cryptocurrency-related assets.

The footnotes related to dollars are in thousands unless noted.

9) Consolidated Financial Statements (Continued)

Note 2. Major Customers

The Company has two customers that accounted for 10 percent (10%) or more of net sales for the three and nine months ended September 30, 2023 and 2022 as follows:

Sales percentage:	For the Three Months Ended September 30,	
	2023	2022
Customer A	40%	40%
Customer B	20%	18%

Sales percentage:	For the Nine Months Ended September 30,	
	2023	2022
Customer A	31%	41%
Customer B	21%	23%

The Company had net receivables (as a percentage of total receivables) from the above customers as follows:

Accounts receivable percentage:	September 30,	
	2023	2022
Customer A	38%	39%
Customer B	41%	40%

Note 3. Income (loss) per Common Share

Income (loss) per common share: Basic income (loss) per common share is computed by dividing the net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted income (loss) per common share is computed by dividing the net income (loss) by the weighted-average number of common shares outstanding during the period, including potentially dilutive shares such as the options to purchase shares of common stock at various amounts per share.

For the three months ended September 30, 2023, the basic income per share was \$0.04 based on 4,721,042 shares outstanding. For the three months ended September 30, 2023, there were no actual or potential dilutive option shares outstanding. For the three months ended September 30, 2022, the basic loss per share was (\$0.02), based on 4,618,063 shares outstanding. For the three months ended September 30, 2022, there were no dilutive option shares outstanding.

For the nine months ended September 30, 2023, the basic income per share was \$0.01 based on 4,667,471 shares outstanding. For the nine months ended September 30, 2023, there were no actual or potential dilutive option shares outstanding. For the nine months ended September 30, 2022, the basic loss per share was (\$0.16) based on 4,612,429 shares outstanding. The diluted loss per share was (\$0.16) for the nine months ended September 30, 2022, based on 4,612,429 shares outstanding. For the nine months ended September 30, 2022, there were no dilutive options shares outstanding. Potentially dilutive shares of 5,417 related to option shares outstanding were considered to be antidilutive due to the net loss for the nine months ended September 30, 2022.

Note 4. Inventories

The components of inventories were as follows, net of reserves:

	September 30, 2023	December 31, 2022
Raw materials	\$ 37	\$ 45
Finished goods	1,050	570
Total, net	<u>\$ 1,087</u>	<u>\$ 615</u>

9) Consolidated Financial Statements (Continued)

Note 5. Allowance for Rework and Warranty Costs

The Company provides a limited warranty for its products for a period of one year, which requires the Company to repair or replace defective product at no cost to the customer or refund the purchase price. The reserve reflecting historical experience and potential warranty issues is determined based on specific experience factors, including rate of return by item, average weeks outstanding from sale to return, average cost of repair, and relation of repair cost to original sales price. Any specific known warranty issues are considered individually. These are analyzed to determine the probability and the amount of financial exposure, and a specific reserve is established. The allowance for rework and warranty costs was \$15 at both September 30, 2023 and December 31, 2022.

Note 6. Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a tax valuation allowance when it is more likely than not that it will not be able to recover the value of its deferred tax assets. The tax effect of the Company's valuation allowance for deferred tax assets is included in the annual effective tax rate. The full valuation allowance for deferred tax assets was \$1,739 as of both September 30, 2023 and December 31, 2022.

The Company calculates its income tax expense by estimating the annual effective tax rate and applying that rate to the year-to-date ordinary income (loss) at the end of the period. For the nine months ended September 30, 2023 and September 30, 2022, the Company calculated its estimated annualized effective tax rate at 0% and 0%, respectively, as the Company provided a full valuation allowance on deferred tax assets.

The Company had no income tax expense on its \$26 pre-tax income from continuing operations for the nine months ended September 30, 2023. The Company had no income tax expense on its \$734 pre-tax loss from continuing operations for the nine months ended September 30, 2022. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

The years 2019 through 2022 remain open for examination by the IRS and other state agencies.

The Company recognizes interest accrued on uncertain tax positions as well as interest received from favorable tax settlements within interest expense. The Company recognizes penalties accrued on unrecognized tax benefits within general and administrative expenses. As of September 30, 2023 and 2022, the Company recognized no interest or penalties related to uncertain tax positions.

At December 31, 2022, the Company had net operating loss carryforwards of \$4,800 for federal income tax purposes and \$5,209 for state income tax purposes that are available to offset future taxable income and begin to expire in the year 2031 and 2023, respectively. The Company will continue utilizing the net operating loss carryforwards and credit carryforwards and will evaluate the realization of the corresponding deferred tax asset at the consolidated company level.

The Company's ability to utilize its net operating losses ("NOLs") to reduce taxable income in future years may be limited for various reasons, including if projected future taxable income is insufficient to recognize the full benefit of such NOLs prior to their expiration. Additionally, the ability to fully utilize these tax assets could also be adversely affected if the Company is deemed to have had an "ownership change" within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). An ownership change is generally defined as a greater than 50% increase in equity ownership by "5-percent shareholders" (as that term is defined for purposes of Section 382 of the Code) in any three-year testing period.

The Company does not anticipate any significant changes to the total amount of unrecognized tax benefits in the next 12 months.

9) Consolidated Financial Statements (Continued)

Note 7. Revenue Recognition

Revenues are recognized when control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Disaggregation of Revenue: The following table presents our revenues disaggregated by revenue sources of hardware, software subscription contracts and cryptocurrency.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Hardware	\$ 1,078	\$ 868	\$ 2,645	\$ 2,612
Subscription service	79	77	233	229
Cryptocurrency	146	175	430	821
	<u>\$ 1,303</u>	<u>\$ 1,120</u>	<u>\$ 3,308</u>	<u>\$ 3,662</u>

Hardware contracts: For hardware contracts, the Company's customers submit binding purchase orders stating the items to purchase, standard price, shipping method and payment terms. The Company sets standard pricing for its hardware items and communicates them to a majority of customers. For customers who receive nonstandard pricing, pricing is determined based on customer annual sales volumes and or geographic region, typically outside of North America.

The Company recognizes revenue at a point in time as hardware is delivered to common carrier for shipment and title transfers.

Software Subscription Contracts: The Company recognizes revenue from software subscription contracts over time as the services are rendered to the customer on a daily basis. Contracts are billed at the beginning of each calendar quarter for a quarterly period with payment terms ranging from 15 to 30 days from the date of invoice.

Significant Judgements: The Company estimates any variable consideration at the outset of the contract (such as credits or incentives to its customers). The Company constrains (reduces) the estimates of variable consideration such that it is probable that a significant revenue reversal of previously recognized revenue will not occur over the life of a contract.

Transaction Price Allocated to Future Performance Obligations: The Company determines the allocation of the transaction price and amounts allocated to remaining performance obligations based on the standalone selling price for each distinct performance obligation in the contract. The Company generally determines standalone selling prices based on the actual prices charged to customers.

Practical Expedients and Exemptions: The Company generally expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses for the nine months ended September 30, 2023 and 2022, respectively.

All of the Company's software subscription contracts are short-term in nature with a contract term of one year. For those contracts, the Company utilized the practical expedient in ASC 606-10-50-14 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

Additionally, the Company's payment terms are short-term in nature with settlements of one year or less, generally net 30 days. The Company, therefore, utilized the practical expedient in ASC 606-10-32-18 exempting the Company from adjusting the promised amount of consideration for the effects of a significant financing component given that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

9) Consolidated Financial Statements (Continued)

Note 7. Revenue Recognition (Continued)

Sales taxes and use taxes are reported on a net basis, excluding them from sales and cost of sales. The Company has elected the practical expedient to exclude such amounts from the determination of the transaction price of contracts.

The Company has elected an accounting policy to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good. Therefore, shipping and handling charges are excluded from the determination of the transaction price of contracts. Shipping and handling charges billed to customers are included in net sales, and shipping and handling costs incurred by the Company are included in cost of sales.

The Company has elected the accounting policy to exclude immaterial goods or services from assessment as separate performance obligations.

Cryptocurrency: The Company recognizes revenue at the time of the cryptocurrency creation (see Notes 1 and 13).

Note 8. Financial Instruments

Marketable securities: The Company's marketable equity securities are carried at fair value. Realized and unrealized gains (losses) are reported in other income. The cost of securities sold is based upon the specific identification method.

Fair value measurements: The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use to price the asset or liability, such as risks inherent in valuation techniques, transfer restrictions, and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The Company's valuation techniques used to measure the fair value of certain marketable equity securities were derived from quoted prices in active markets for identical assets or liabilities.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments.

Cash, cash equivalents, and marketable securities: The following table shows the Company's cash and securities' adjusted cost, gross unrealized gains, gross unrealized losses, and fair value by significant investment category recorded as cash and cash equivalents or short- or long-term marketable securities as of September 30, 2023 and December 31, 2022, respectively:

9) Consolidated Financial Statements (Continued)

Note 8. Financial Instruments (Continued)

WINLAND HOLDINGS CORPORATION
CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES
(In Thousands)
(unaudited)

As of September 30, 2023

	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	\$ 794	\$ -	\$ -	\$ 794	\$ 794	\$ -	\$ -
Level 1:							
Investments	20	-	(19)	1	-	-	1
Total	<u>\$ 814</u>	<u>\$ -</u>	<u>\$ (19)</u>	<u>\$ 795</u>	<u>\$ 794</u>	<u>\$ -</u>	<u>\$ 1</u>

As of December 31, 2022

	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	\$ 961	\$ -	\$ -	\$ 961	\$ 961	\$ -	\$ -
Level 1:							
Investments	20	-	(14)	6	-	-	6
Total	<u>\$ 981</u>	<u>\$ -</u>	<u>\$ (14)</u>	<u>\$ 967</u>	<u>\$ 961</u>	<u>\$ -</u>	<u>\$ 6</u>

Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis. As of September 30, 2023, the Company does not consider any of its investments to be other-than-temporarily impaired. The balance included as a long-term marketable security has been classified as long-term as it is the company's intent to hold the investment for greater than one year, though the actual length of time that the security may be held could be different.

Note 9. Other Income (Expense)

Other income (expense) consisted of the following for the three and nine months ended September 30, 2023 and 2022:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest income	\$ -	\$ 1	\$ 3	\$ 1
Dividend income	11	-	18	-
Marketable securities (Note 8)	(3)	(11)	(5)	(11)
Rights to payment (Note 11)	-	-	3	-
Cryptocurrency (Note 13)	(2)	(31)	(3)	(976)
Proceeds from class action lawsuit (Note 17)	26	-	26	-
Other income (expense)	<u>\$ 32</u>	<u>\$ (41)</u>	<u>\$ 42</u>	<u>\$ (986)</u>

9) Consolidated Financial Statements (Continued)

Note 10. Segment Reporting

The Company reports results of operations by reportable segments, Winland Electronics, Winland Capital Corp., and Winland Mining.

WINLAND HOLDINGS CORPORATION SEGMENT REPORTING

(In Thousands)
(unaudited)

	Winland Electronics	Winland Capital Corp.	Winland Mining	Other	Total
<i>Three months ended September 30, 2023</i>					
Cash	\$ 70	\$ 525	\$ 37	\$ 162	\$ 794
Total assets	2,102	935	1,834	(147)	4,724
Net sales	1,157	-	146	-	1,303
Depreciation	6	-	38	-	44
Net income (loss) before taxes	219	(3)	(48)	2	170
<i>Three months ended September 30, 2022</i>					
Cash	\$ 584	\$ 485	\$ 39	\$ 156	\$ 1,264
Total assets	2,001	857	1,404	332	4,594
Net sales	945	-	175	-	1,120
Depreciation	6	-	52	-	58
Net income (loss) before taxes	20	(22)	(59)	-	(61)
<i>Nine months ended September 30, 2023</i>					
Cash	\$ 70	\$ 525	\$ 37	\$ 162	\$ 794
Total assets	2,102	935	1,834	(147)	4,724
Net sales	2,878	-	430	-	3,308
Depreciation	18	-	151	-	169
Net income (loss) before taxes	199	(19)	(158)	4	26
<i>Nine months ended September 30, 2022</i>					
Cash	\$ 584	\$ 485	\$ 39	\$ 156	\$ 1,264
Total assets	2,001	857	1,404	332	4,594
Net sales	2,841	-	821	-	3,662
Depreciation	17	-	155	-	172
Net income (loss) before taxes	12	(38)	(708)	-	(734)

Note 11. Rights to Payment

Rights to payment, net of any proceeds, are \$350 as of both September 30, 2023 and December 31, 2022. All rights to payment are in cryptocurrency-related claims.

Winland Credit received payments of \$25 and \$0 for rights to payment during the nine months ended September 30, 2023 and 2022, respectively. Winland Credit had \$22 recorded in accounts receivable related to these payments as of December 31, 2022. Winland Credit recognized a gain of \$3 and \$0 for the nine months ended September 30, 2023 and 2022, respectively. The Company believes all rights to payment are collectible as of September 30, 2023.

9) Consolidated Financial Statements (Continued)

Note 12. Related Party Transactions

In August 2019, Winland Credit entered into a management agreement with 507 Capital LLC (“507”). 507 is an investment firm owned and operated by Thomas Braziel, formerly a member of the Company’s Board of Directors. 507 was entitled to an annual management fee of 1.5% of the aggregate amount of certain investments made by Winland Credit. In addition to the annual management fee, 507 was entitled to a performance fee of 20.0% of any excess profit of certain investments made by Winland Credit (as defined in the agreement). The management agreement between Winland Credit and 507 was terminated in July 2023. Winland Credit incurred fees of \$0 in the nine months ended September 30, 2023 and \$2 in the nine months ended September 30, 2022, of which \$0 and \$3 were included in accounts payable as of September 30, 2023 and December 31, 2022, respectively.

In June 2020, Winland Mining entered into a services agreement with Horizon Kinetics LLC (“HK”). HK is an investment firm owned and operated by Steven Bregman, among others. Mr. Bregman is a member of the Company’s Board of Directors. HK is the employer of Matthew Houk, Co-Chief Manager and Chief Financial Officer of Winland Mining, Chief Executive Officer and Chief Financial Officer of the Company, and Chairman of the Company’s Board of Directors. HK is entitled to a quarterly management fee of \$3. The services agreement shall continue unless terminated by either party upon 30 days’ prior written notice. Winland Mining incurred fees of \$9 for both of the nine months ended September 30, 2023 and 2022, of which \$15 and \$6 was included in accounts payable as of September 30, 2023 and December 31, 2022, respectively.

Note 13. Winland Mining LLC

On June 23, 2020, the Company, through its wholly-owned subsidiary Winland Mining, acquired 200 Bitmain S19 95 TH/S cryptocurrency miners from FRMO Corporation in exchange for 574,000 shares of the Company’s common stock. In connection with its acquisition of cryptocurrency mining equipment, Winland Mining entered into a services agreement with Horizon Kinetics LLC to engage with cryptocurrency mining hosting facilities on Winland Mining’s behalf and to support its cryptocurrency mining operations by performing certain services from time to time. Winland Mining began operating its cryptocurrency mining equipment in July 2020.

On September 1, 2020, the Company, through its wholly-owned subsidiary Winland Mining, acquired cash and cryptocurrencies of Horatio Mining LLC, a privately-held cryptocurrency mining company, from FRMO Corporation in exchange for 136,419 shares of the Company’s common stock.

On September 8, 2021, the Company, through its wholly-owned subsidiary Winland Mining, acquired 32 Canaan AvalonMiner 1246 90 TH/S cryptocurrency miners from FRMO Corporation in exchange for 52,560 shares of the Company’s common stock.

On April 24, 2023, the Company, through its wholly-owned subsidiary Winland Mining, acquired 32 Bitmain S19 XP (average 140 TH/S) cryptocurrency miners from FRMO Corporation in exchange for 59,036 shares of the Company’s common stock.

On August 10, 2023, the Company, through its wholly-owned subsidiary Winland Mining, acquired 50 Bitmain S19 XP 141 TH/S cryptocurrency miners from FRMO Corporation in exchange for 79,270 shares of the Company’s common stock.

As of September 30, 2023 and December 31, 2022, Winland Mining owned 72 and 71 Bitcoins with a cost (determined as the lower of cost or net realizable value) of \$1,149 and \$1,103, respectively. During the nine months ended September 30, 2023 and 2022, Winland Mining recorded a net realizable value adjustment of \$(3) and (\$976), which has been included in other income (expense) on the condensed consolidated statements of operations. Bitcoin had a market price of \$27 per Bitcoin as of September 30, 2023. As of both September 30, 2023 and December 31, 2022, Winland Mining owned other cryptocurrency with a cost (determined as the lower of cost or net realizable value) of \$2 and \$3, respectively.

Winland Mining’s primary revenue stream is related to the mining of digital currencies (“cryptocurrency”). Winland Mining derives its revenue by solving “blocks” to be added to the blockchain and providing transaction verification services within the digital currency networks of cryptocurrency, commonly termed “cryptocurrency mining.” In consideration for these services, Winland Mining receives cryptocurrency. The cryptocurrency is recorded as revenue, using the spot price of the cryptocurrency on the date of receipt. The cryptocurrency is recorded on the balance sheet as an intangible asset valued at the lower of cost or net realizable value. Net realizable value adjustments, to adjust the value of cryptocurrency to market value, is included in other expense on our consolidated statement of operations. Further, any gain or loss on the sale of cryptocurrency would be recorded to other income or other expense. Costs of revenue include hosting fees, equipment depreciation, and management fees.

9) Consolidated Financial Statements (Continued)

Note 13. Winland Mining LLC (Continued)

There is currently no specific definitive guidance under GAAP or alternative accounting framework for the accounting for cryptocurrencies recognized as revenue or held, and management has exercised significant judgment in determining the appropriate accounting treatment. On September 6, 2023 the FASB directed its staff to draft a final standard on Crypto Assets which would require an entity to subsequently measure certain crypto assets at fair value, with changes in fair value included in net income each reporting period. The Company may be required to change its policies, which could have an effect on the Company's consolidated financial position and results from operations.

Note 14. Property and Equipment

The components of property and equipment were as follows, net of any depreciation:

Property and Equipment, at cost	September 30, 2023	December 31, 2022
Machinery and equipment	\$ 152	\$ 151
Data processing equipment	33	30
Office furniture and equipment	29	29
Cryptocurrency mining equipment	878	619
Total property and equipment	1,092	829
Less accumulated depreciation	673	527
Net property and equipment	\$ 419	\$ 302

Note 15. Right of Use Asset and Operating Lease Liability

On March 2, 2021, Winland Electronics entered into a lease agreement with Fisher Exchange LLC to lease 1,033 square feet of office space at 424 North Riverfront Drive, Suite 200, Mankato, MN. In July 2023, Winland Electronics and Fisher Exchange LLC agreed to extend the lease until March 31, 2026. This office space will be used for the Company's operations including customer service, technical support, and finance. As a result of entering into this lease, Winland Electronics has recorded an operating lease right of use asset and an operating lease liability of \$25 and \$11 as of September 30, 2023 and December 31, 2022, respectively.

Note 16. Loss on Disposal of Equipment

In June 2023, 5 of the Bitmain S19 95 TH/S and 3 of the Canaan AvalonMiner 1246 90 TH/S cryptocurrency miners operated by Winland Mining were deemed unrepairable and disposed of, resulting in a loss of \$9 for the nine months ending September 30, 2023.

Note 17. Proceeds from Class Action Lawsuit

In July 2023, Winland Electronics received \$26 in the settlement of class action titled *In re Capacitors Antitrust Litigation – All Indirect Purchaser Actions* related to capacitor purchases between January 1, 2002 and December 31, 2013.

10) Issuer Certification

Principal Executive Officer & Principal Financial Officer:

I, Matthew D. Houk, certify that:

1. I have reviewed this Disclosure Statement for Winland Holdings Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

October 31, 2023

/s/ Matthew D. Houk

Chairman, Chief Executive Officer, Chief Financial Officer