

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

Annual Report
For the Period Ending: December 31, 2023 (the “Reporting Period”)

Outstanding Shares

The number of shares outstanding of our Common Stock was:

4,756,369 as of December 31, 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 or FINRA 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: ☐

If Yes, provide additional details below:

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: December 31, 2023

Total shares outstanding: 4,756,369 as of date: December 31, 2023

Total number of shareholders of record: 250 as of date: December 31, 2023

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 for the two most recently completed fiscal years and any subsequent period.

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)

Shares Outstanding as of: <u>January 1, 2022</u>	<u>Opening Balance:</u> Common: <u>4,600,783</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>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>Unrestricted</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 as of: <u>December 31, 2023</u>	<u>Ending Balance:</u> 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.)
—	—	—	—	—	—	—	—

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 191 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 7.

6) All Officers, Directors, and Control Persons of the Company

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer/Director/Owner of 5% or more)	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	Heath, TX	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	1,630,507	Common	34.3%	(4)

- 1) According to Matthew D. Houk, as of December 31, 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 December 31, 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 December 31, 2023, he beneficially owns and has sole power to vote or dispose of 120,240 shares.
- 4) According to Steven M. Bregman, as of December 31, 2023, 1,598,488 shares are beneficially owned by FRMO Corp., which has sole power to vote or to dispose of such shares. 32,019 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:

1. Been the subject of an indictment or a conviction in a criminal proceeding or plea agreement or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
None.

2. Been the subject of 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, financial- or investment-related, insurance or banking activities;
None.

3. Been the subject of a finding, disciplinary order 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, or a foreign regulatory body or court, which finding or judgment has not been reversed, suspended, or vacated;
None.

4. Named as a defendant or a respondent in a regulatory complain or proceeding that could result in a "yes" answer to part 3 above; or
None.

5. Been the subject 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.

6. Been the subject of a U.S. Postal Service false representation order, or a temporary restraining order, or preliminary injunction with respect to conduct alleged to have violated the false representation statute that applies to U.S. mail.
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:	200 South Sixth Street Suite 4000
Address 2:	Minneapolis, MN 55402-1425
Phone:	(612) 492-7000
Email:	rbrauer@fredlaw.com

Accountant or Auditor

Firm:	Marcum LLP
Address 1:	600 Anton Boulevard, Suite 1600
Address 2:	Costa Mesa, CA 92626
Phone:	(949) 236-5600
Email:	info@marcumllp.com

9) **Disclosure & Financial Information**

A. This Disclosure Statement was prepared by (name of individual)

Name: Matthew D. Houk

Title: Chairman, CEO & CFO

Relationship to Issuer: Director & Officer of Issuer

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

☐ IFRS

☒ U.S. GAAP

C. The following financial statements 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. Mr. Houk also serves on the boards of Lamington Road DAC and Bonterra Resources Inc. 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.*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Winland Holdings Corporation

Opinion

We have audited the consolidated financial statements of Winland Holdings Corporation, which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Winland Holdings Corporation as of December 31, 2023, and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Winland Holdings Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Explanatory Paragraph – Change in Accounting Principle

As discussed in Notes 2 and 4 to the financial statements, Winland Holdings Corporation changed its method of accounting for digital assets during the year ended December 31, 2023 by early adopting ASU 2023-08, *Intangibles - Goodwill and Other - Crypto Assets (Topic 350-60): Accounting for and Disclosure of Crypto Assets*, effective January 1, 2023 using the modified retrospective method.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Winland Holdings Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Winland Holdings Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Winland Holdings Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

The consolidated financial statements of Winland Holdings Corporation for the year ended December 31, 2022 were audited by another auditor in accordance with GAAS and who expressed an unmodified opinion on those consolidated financial statements on March 14, 2023.

/s/ Marcum LLP
Costa Mesa, CA
03/29/2024

9) Disclosure & Financial Information (Continued)

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 995	\$ 961
Accounts receivable, less allowance for credit losses of \$8 as of both December 31, 2023 and December 31, 2022 (Note 2)	831	824
Inventories (Note 3)	950	615
Prepaid expenses and other assets	<u>118</u>	<u>136</u>
Total current assets	2,894	2,536
Property and Equipment, at cost		
Machinery and equipment	151	151
Data processing equipment	38	30
Office furniture and equipment	29	29
Cryptocurrency mining equipment	<u>850</u>	<u>619</u>
Total property and equipment	1,068	829
Less accumulated depreciation	<u>696</u>	<u>527</u>
Net property and equipment	372	302
Long-term investments	1	1
Long-term marketable securities (Note 11)	1	6
Long-term rights to payment (Note 14)	350	350
Operating lease right of use asset (Note 18)	23	11
Cryptocurrency (Note 17)	<u>3,089</u>	<u>1,106</u>
Total long-term assets	3,464	1,474
Total assets	\$ 6,730	\$ 4,312
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 514	\$ 533
Operating lease liability (Note 18)	9	9
Accrued liabilities:		
Compensation	124	67
Other current liabilities	<u>15</u>	<u>15</u>
Total current liabilities	662	624
Long-Term Liabilities		
Operating lease liability (Note 18)	<u>14</u>	<u>2</u>
Total long-term liabilities	14	2
Total liabilities	676	626
Stockholders' Equity (Note 5)		
Common stock, par value \$0.01 per share; authorized 19,940,000 shares; issued and outstanding 4,756,369 as of December 31, 2023 and 4,618,063 as of December 31, 2022	48	46
Additional paid-in capital	6,132	5,845
Accumulated deficit	<u>(126)</u>	<u>(2,205)</u>
Total stockholders' equity	6,054	3,686
Total liabilities and stockholders' equity	\$ 6,730	\$ 4,312

See Notes to Consolidated Financial Statements

9) Disclosure & Financial Information (Continued)

WINLAND HOLDINGS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,
(In Thousands, Except Share and Per Share Data)

	<u>2023</u>	<u>2022</u>
Net sales		
Product and services (Note 2 and 9)	\$ 4,153	\$ 3,964
Cryptocurrency (Note 17)	<u>635</u>	<u>882</u>
Total net sales	<u>4,788</u>	<u>4,846</u>
Cost of sales		
Product and services	2,596	2,501
Cryptocurrency	<u>670</u>	<u>637</u>
Total cost of sales	<u>3,266</u>	<u>3,138</u>
Gross profit	<u>1,522</u>	<u>1,708</u>
Operating expenses:		
General and administrative	670	511
Sales and marketing	494	449
Research and development	209	560
Disposal of equipment (Note 19)	14	-
Realized and unrealized gain on cryptocurrency, net	(1,842)	-
Impairment of cryptocurrency (Note 1)	<u>-</u>	<u>1,141</u>
Total operating expenses	<u>(455)</u>	<u>2,661</u>
Operating income (loss)	<u>1,977</u>	<u>(953)</u>
Other expense (Note 12 and 16)	<u>53</u>	<u>1</u>
Income (loss) before income taxes	<u>2,030</u>	<u>(952)</u>
Income tax expense (Note 6)	<u>20</u>	<u>46</u>
Net income (loss)	<u><u>\$ 2,010</u></u>	<u><u>\$ (998)</u></u>
Income (loss) per common share data:		
Basic	\$ 0.43	\$ (0.22)
Diluted	\$ 0.43	\$ (0.22)
Weighted-average number of common shares outstanding:		
Basic	4,689,879	4,613,850
Diluted	4,689,879	4,613,850

See Notes to Consolidated Financial Statements

9) Disclosure & Financial Information (Continued)

WINLAND HOLDINGS CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands, Except Share Data)

	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 loss	-	-	-	(998)	(998)
Balance on December 31, 2022	4,618,063	46	5,845	(2,205)	3,686
Issuance of stock for equipment (Note 17)	138,306	2	287	-	289
Impact of adoption of ASU 2023-08	-	-	-	69	69
Net income	-	-	-	2,010	2,010
Balance on December 31, 2023	4,756,369	\$ 48	\$ 6,132	\$ (126)	\$ 6,054

See Notes to Consolidated Financial Statements

9) **Disclosure & Financial Information (Continued)**

WINLAND HOLDINGS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Net income (loss)	\$ 2,010	\$ (998)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	213	229
Loss on disposal of property and equipment	14	-
Net unrealized loss (gain) from marketable securities	5	11
Realized and unrealized gains on cryptocurrency, net	(1,842)	-
Net gain from rights to payment	22	(9)
Decrease in allowance for obsolete inventory	(24)	(64)
Changes in assets and liabilities:		
Accounts receivables	(29)	(286)
Inventories	(311)	(113)
Cryptocurrency	(635)	627
Prepaid expenses and other assets	18	(8)
Accounts payable	(19)	121
Accrued liabilities	57	6
Net cash provided by (used in) operating activities	<u>(521)</u>	<u>(484)</u>
Cash flows from investing activities		
Purchases of property and equipment	(8)	(47)
Proceeds from sale of cryptocurrencies	563	-
Net cash provided by (used in) investing activities	<u>555</u>	<u>(47)</u>
Net decrease in cash and cash equivalents	34	(531)
Cash and cash equivalents		
Beginning	961	1,492
Ending	<u>\$ 995</u>	<u>\$ 961</u>
Non-cash investing and financing activities:		
Issuance of common stock for equipment (Note 17)	\$ 289	\$ -
Accounts receivable from right to payment (Note 14)	-	22

See Notes to Consolidated Financial Statements

9) Disclosure & Financial Information (Continued)

Note 1. Nature of Business and Significant Accounting Policies

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 191 Bitmain S19 95 TH/S, 26 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.

A summary of Winland’s significant accounting policies follows:

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowances for obsolete inventories, warranties, valuation of long-lived assets, recoverability of rights to payment and doubtful accounts. Winland cannot assure that actual results will not differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include money market mutual funds and other highly liquid investments defined as maturities of three months or less from date of purchase. Winland maintains its cash in bank and brokerage deposit accounts which, at times, may exceed federally insured limits. Winland has not experienced any losses in such accounts.

Allowance for Credit Loss: The Company generally requires no collateral from its customers with respect to trade accounts receivable. Invoices are generally due 30 days after presentation. Accounts receivable over 30 days are considered past due. No interest is charged on past due accounts. The Company utilizes the loss rate method in determining its lifetime expected credit losses on its receivables. This method is used for calculating an estimate of losses based primarily on the Company’s historical loss experience over the past five years, adjusted for current conditions and further adjusted for the period that can be reasonably forecasted. The Company has not experienced any receivable write-offs on accounts deemed uncollectible over the past five years. The Company has experienced extended days sales outstanding related to subscription service receivables over the past twelve months. The allowance for credit losses was \$8 as of both December 31, 2023 and 2022.

9) Disclosure & Financial Information (Continued)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Inventory Valuation: Raw component and finished goods inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or net realizable value. Winland estimates excess, slow moving and obsolete reserves for inventory on a quarterly basis based upon order demand and production requirements for its major customers and annual reviews for other customers. Management's estimated reserve for slow moving and obsolete finished goods inventories was \$21 and \$45 as of December 31, 2023 and 2022, respectively.

Depreciation: Depreciation is computed using the straight-line method based on the estimated useful lives of the various assets, as follows:

	Years
Machinery and equipment	5 - 7
Data processing equipment	3 - 7
Office furniture and equipment	3 - 7
Cryptocurrency mining equipment	3

Leases: The Company determines if an arrangement contains a lease at inception. The Company has elected the practical expedient to exclude short-term leases and month-to-month leases from their operating right-of-use ("ROU") assets, and operating lease liabilities in their Consolidated Balance Sheets.

Long-Lived Assets: Considerable management judgment is necessary in estimating future cash flows and other factors affecting the valuation of long-lived assets including the operating and macroeconomic factors that may affect them. The Company uses historical financial information, internal plans and projections, and industry information in making such estimates. While the Company currently believes the expected cash flows from these long-lived assets exceeds the carrying amount, materially different assumptions regarding future performance and discount rates could result in future impairment losses. Such impairment would adversely affect earnings. No impairment losses were recognized in 2023 or 2022.

Allowance for Rework and Warranty Costs: Winland provides a limited warranty for its products for a period of one year, which requires Winland to repair or replace defective product at no cost to the customer or refund the purchase price. Reserves are established based on historical experience and analysis for specific known and potential warranty issues. The reserve reflecting historical experience and potential warranty issues is determined based on experience factors including rate of return by item, average weeks outstanding from production 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 as of both December 31, 2023 and 2022. The product warranty liability reflects management's best estimate of probable liability under Winland's product warranties and may differ from actual results.

Income Taxes: Income taxes are accounted for in accordance with Financial Accounting Standards Board (FASB) Account Standard Codification (ASC) Topic 740 Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

9) Disclosure & Financial Information (Continued)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

In assessing the realizability of deferred income tax assets, Winland considers whether it is "more likely than not," according to the criteria, that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In accordance with FASB ASC 740-10-25-5, Winland 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 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.

Fair Value of Financial Instruments: The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these instruments.

Cryptocurrency and Cryptocurrency Revenue: Winland Mining's primary revenue stream is related to the mining of digital currencies ("cryptocurrency"). We derive our revenue from participating in third-party mining pools. When the Company is a Participant in a third-party operated mining pool, the Company provides a service to perform hash calculations to the third-party pool operators. The Company considers the third-party mining pool operators to be its customers under Topic 606. Contract inception and our enforceable right to consideration begins when we commence providing hash calculation services to the mining pool operators. Each party to the contract has the unilateral right to terminate the contract at any time without any compensation to the other party for such termination. As such, the duration of a contract is less than a day and may be continuously renewed multiple times throughout the day. The implied renewal option is not a material right because there are no upfront or incremental fees in the initial contract and the terms, conditions, and compensation amount for the renewal options are at the then market rates.

The Company primarily participates in mining pools that use the FPPS payout method for the year ended December 31, 2023. The Company is entitled to compensation once it begins to perform hash calculations for the pool operator in accordance with the operator's specifications over a 24-hour period beginning mid-night UTC and ending 23:59:59 UTC on a daily basis. The non-cash consideration that we are entitled to for providing hash calculations to the pool operator under the FPPS payout method is made up of block rewards and transaction fees less pool operator expenses determined as follows:

- The non-cash consideration in the form of a block reward is based on the total blocks expected to be generated on the Bitcoin Network for the daily 24-hour period beginning midnight UTC and ending 23:59:59 UTC in accordance with the following formula: the daily hash calculations that we provided to the pool operator as a percent of the Bitcoin Network's implied hash calculations as determined by the network difficulty, multiplied by the total Bitcoin Network block rewards expected to be generated for the same daily period.
- The non-cash consideration in the form of transaction fees paid by transaction requestors is based on the share of total actual fees paid over the daily 24-hour period beginning midnight UTC and ending 23:59:59 UTC in accordance with the following formula: total actual transaction fees generated on the Bitcoin Network during the 24-hour period as a percent of total block rewards the Bitcoin Network actually generated during the same 24-hour period, multiplied by the block rewards we earned for the same 24-hour period noted above.
- The block reward and transaction fees earned by the Company is reduced by mining pool fees charged by the operator for operating the pool based on a rate schedule per the mining pool contract. The mining pool fee is only incurred to the extent we perform hash calculations and generate revenue in accordance with the pool operator's payout formula during the same 24-hour period beginning mid-night UTC daily.

The above non-cash consideration is variable in accordance with paragraphs ASC 606-10-32-5 to 606-10-32-7, since the amount of block reward earned depends on the amount of hash calculations we perform; the amount of transaction fees we are entitled to depends on the actual Bitcoin Network transaction fees over the same 24-hour period; and the operator fees for the same 24-hour period are variable since it is determined based on the total block rewards and transaction fees in accordance with the pool operator's agreement. While the non-cash consideration is variable, the Company has the ability to estimate the variable consideration at contract inception with reasonable certainty without the risk of significant revenue reversal. The Company does not constrain this variable consideration because it is probable that a significant reversal in the amount of revenue recognized from the contract will not occur when the uncertainty is subsequently resolved and recognizes the non-cash consideration on the same day that control is transferred, which is the same day as contract inception.

9) Disclosure & Financial Information (Continued)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Company measures the non-cash consideration based on the daily spot rate of bitcoin determined using the Company's primary trading platform for bitcoin as of 23:59:59 UTC on the day of contract inception.

Effective January 1, 2023, the Company early adopted ASU 2023-08, which requires entities to measure crypto assets at fair value with changes recognized in the net income each reporting period. The Company's digital assets are within the scope of ASU 2023-08 and the transition guidance requires a cumulative-effect adjustment as of the beginning of the current fiscal year for any difference between the carrying amount of the Company's digital assets and fair value. As a result of the Company's early adoption of ASU 2023-08, the Company recorded a \$69 increase to digital assets and a \$69 decrease to accumulated deficit on the Consolidated Balance Sheets as of the beginning of the fiscal year ended December 31, 2023. The Company tracks its cost basis of digital assets by-wallet in accordance with the first-in-first-out ("FIFO") method of accounting.

Prior to the adoption of ASU 2023-08, digital assets were accounted for as indefinite-lived intangible assets and were initially measured in accordance with ASC 350 - Intangible-Goodwill and Other. Digital assets were not amortized, but were assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived intangible asset is impaired. Whenever the exchange-traded price of digital assets declined below its carrying value, the Company was required to determine if an impairment existed and to record an impairment equal to the amount by which the carrying value exceeded the fair value (see Note 11).

Income per Common Share: Basic income per common share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. Diluted income per common share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period, including potentially dilutive shares such as the options and warrants to purchase shares of common stock at various amounts per share (see Note 5).

For the year ended December 31, 2023, the basic income per share was \$0.43 based on 4,689,679 shares outstanding. For the period ending December 31, 2023, there were no actual or potential dilutive option shares outstanding.

The diluted loss per share was (\$0.22) for the year ended December 31, 2022 based on 4,613,850 shares outstanding. Potentially dilutive shares of 3,970 related to option shares outstanding were considered to be antidilutive due to the net loss for the year ended December 31, 2022.

Revenue Recognition: See Note 9.

Employee Stock-Based Compensation Plans: At December 31, 2023, Winland had stock-based compensation plans, which are described more fully in Note 5. Winland accounts for these plans under FASB ASC Topic 718, Stock Compensation.

Advertising Expense: Advertising is expensed as incurred and was \$36 and \$25 for the years ended December 31, 2023 and 2022, respectively.

Research and Development Expense: The Company expenses research and development costs as incurred. Research and development expenses of \$209 and \$560 were charged to operations during the years ended December 31, 2023 and 2022, respectively.

Recent Accounting Pronouncements: In June 2016, the Financial Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. ASU 2016-13 introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before being recognized. On January 1, 2023, the Company adopted the ASU prospectively. There was no adjustment to retained earnings upon adoption.

In December 2023, the FASB issued ASU No. 2023-08, *Intangibles-Goodwill and Other-Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*, effective for fiscal and interim periods after December 15, 2024. Early adoption is permitted for both interim and annual financial statements that have not yet been issued. The Company chose to early adopt ASU 2023-08 effective January 1, 2023. There was a cumulative effect of \$69 upon adoption of ASU 2023-08.

9) Disclosure & Financial Information (Continued)

Note 2. Major Customers

The Company has two customers that accounted for 10 percent (10%) or more of net sales for the years ended December 31, 2023 and 2022 as follows:

Sales percentage:	For the Twelve Months Ended December 31,	
	2023	2022
Customer A	42%	46%
Customer B	22%	20%

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

Accounts receivable percentage:	December 31,	
	2023	2022
Customer A	54%	63%
Customer B	34%	26%

Note 3. Inventories

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

	December 31, 2023	December 31, 2022
Raw materials	\$ 16	\$ 45
Finished goods	\$ 934	\$ 570
Total, net	\$ 950	\$ 615

Note 4. Revolving Credit Agreement

Winland Electronics has a revolving line of credit with BMO Harris Bank N.A. for up to \$500 with no maturity date. The credit agreement bears interest at 0.30% below the Prime rate, with a floor at 3.00% and is secured by substantially all assets of Winland Electronics. There was no outstanding balance as of December 31, 2023 or 2022; \$500 was available to Winland Electronics as of December 31, 2023 under the line of credit.

Note 5. Stock-Based Awards

Stock Option Plans: As of December 31, 2023, Winland had one equity-based compensation plan, the 2013 Equity Incentive Plan, from which stock-based compensation awards can be granted to eligible employees, officers or directors. Previous to this plan, stock-based compensation awards were granted from the 2008 and 2005 Equity Incentive Plans. The plans are as follows:

2013 Equity Incentive Plan – This plan provides awards in the form of incentive stock options, nonqualified stock options, and restricted stock. Currently, this is the only plan under which awards are authorized for grant. As approved by the shareholders in May 2013, up to 350,000 shares are authorized for issuance under the plan. As of both December 31, 2023 and 2022, there were no awards under this plan. For any awards to be made under the plan, the exercise price is equal to the fair market value of Winland's common stock at the date of grant. Options generally vest over five years and have a contractual life up to ten years. Option awards provide for accelerated vesting if substantially all of Winland's assets are transferred through an acquisition, merger, reorganization or other similar change of control transaction. The Company issues new shares upon the exercise of options.

2008 Equity Incentive Plan – This plan provided grants in the form of incentive stock options, nonqualified stock options, and restricted stock. This plan was terminated as to future grants in May 2013. As of December 31, 2023 and 2022, there were 0 and 0 options outstanding under this plan of which 0 and 0, respectively are vested.

9) **Disclosure & Financial Information (Continued)**

Note 5. Stock-Based Awards (Continued)

Winland uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards. Winland calculates the expected life of awards using historical data to estimate option exercises and employee terminations. Expected volatility is based on daily historical fluctuations of Winland's common stock using the closing market value for the number of days of the expected term immediately preceding the grant. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant for a bond with a similar term. The dividend yield is based on the expectation that Winland will not pay dividends.

Winland receives a tax deduction for certain stock option exercises and disqualifying stock dispositions during the period the options are exercised or the stock is sold, generally for the excess of the price at which the shares are sold over the exercise prices of the options. In accordance with FASB ASC 718-10-50-1, Winland revised its presentation in the Statements of Cash Flows to report any tax benefit from the exercise of stock options as financing cash flows. For the years ended December 31, 2023 and 2022, there were no such stock option exercises and disqualifying stock dispositions. Options exercised were 0 and 20,000 for the years ended December 31, 2023 and 2022, respectively.

The following table represents stock option activity for the years ended December 31, 2023 and 2022:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value
Outstanding options at January 1, 2022	20,000	\$ 0.51		
Exercised	(20,000)	0.51		
Outstanding options at December 31, 2022	-	\$ -	0.0	\$ -
Exercisable at December 31, 2022	-	-		
Outstanding options at December 31, 2023	-	\$ -	0.0	\$ -
Exercisable at December 31, 2023	-	\$ -	0.0	\$ -

The aggregate intrinsic value of options outstanding and options exercisable is based upon the Company's closing stock price on the last trading day of the fiscal year for the in-the-money options.

No shares vested during the years ended December 31, 2023 and 2022.

At December 31, 2023 and 2022, there was no unrecognized compensation cost, adjusted for estimated forfeitures, related to share-based payments.

At December 31, 2023 and 2022, there were no stock options outstanding.

9) Disclosure & Financial Information (Continued)

Note 6. Income Taxes

The statutory income tax rate reconciliation to the effective rate is as follows:

	December 31,	
	2023	2022
Statutory U.S. income tax rate	21 %	21 %
States	2	-
Change in valuation allowance	(23)	(21)
Effective income tax benefit rate	- %	- %

Deferred tax assets (liabilities) consist of the following components:

	December 31,	
	2023	2022
Deferred tax assets:		
Accrued expenses	\$ 19	\$ 8
Allowance for credit loss	2	2
Inventory reserve	4	10
Section 174	123	-
Unrealized loss on cryptocurrency	-	348
Unrealized loss on market securities	1	-
Warranty reserve	3	2
Net operating loss carryforward	1,169	1,457
Miscellaneous	-	9
	1,321	1,836
Deferred tax liabilities:		
Fixed assets	(30)	(68)
Investment	(16)	(16)
Stock options	(2)	-
Prepays	(13)	(13)
Unrealized loss on cryptocurrency	(83)	-
Unrealized loss on market securities	-	(0)
	(144)	(97)
Valuation allowance	(1,177)	(1,739)
Net deferred tax assets/liability	\$ -	\$ -

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 net change in the total valuation allowance was a decrease of \$562 and an increase of \$191 for the years ended December 31, 2023 and 2022, respectively. The full valuation allowance for deferred tax assets as of December 31, 2023 and 2022 was \$1,177 and \$1,739, respectively.

9) Disclosure & Financial Information (Continued)

Note 6. Income Taxes (Continued)

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. The Company provided a full valuation allowance on deferred tax assets. The Company had a tax expense of \$20 on its \$2,030 pre-tax income for the year ended December 31, 2023. The tax expense of \$20 for the year ended December 31, 2023 was a result of the Company filing separate state tax returns for subsidiaries that had taxable income. The Company had income tax expense of \$46 on its \$952 pre-tax loss for the year ended December 31, 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 2020 through 2023 remain open for examination by the IRS and other state agencies.

As of December 31, 2023 and 2022, the Company recognized no interest or penalties related to uncertain tax positions.

At December 31, 2023, the Company had net operating loss carryforwards of \$3,817 for federal income tax purposes and \$4,737 for state income tax purposes that are available to offset future taxable income and begin to expire in the year 2031 and 2023, respectively. Effective January 1, 2018, the Company restructured into a holding company, with the operations of Winland Electronics being dropped down into a subsidiary of Winland. Additional subsidiaries were created to operate new areas of business. With the restructuring, the tax attributes related to the net operating loss carryforwards and credit carryforwards remained at the parent level with Winland. Various other tax attributes directly related to the operations of the subsidiaries were dropped down to the subsidiaries at the time of restructuring. 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 amounts of unrecognized tax benefits in the next 12 months.

Note 7. Commitments and Contingencies

Operating Leases: 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. This office space is used for the Company's operations including customer service, technical support and finance. In July 2023, Winland Electronics and Fisher Exchange LLC agreed to extend the lease until March 31, 2026.

Rent expense was \$22 and \$21 for the years ended December 31, 2023 and 2022, respectively, is included in general and administrative expenses.

Severance Agreements: As part of the Company's employment agreements with certain employees, if such employees are terminated without cause, severance payments may be due to such employees. Winland made no severance payments for the years ended December 31, 2023 and 2022, respectively.

On January 13, 2021, Winland Electronics and NextGen RF Design, Incorporated ("NextGen RF") entered into a Manufacturing Agreement which provides NextGen RF rights to manufacture Winland Electronics' finished goods requirements relating to specified products at a mutually agreed upon price. The Manufacturing Agreement expires on December 31, 2024.

9) Disclosure & Financial Information (Continued)

Note 8. Employee Benefit Plans

Health Savings Account: Winland has a health savings account plan for its employees who meet certain service requirements. The plan provides for Winland to make contributions equal to one-half the deductible limit elected by the employee, but not exceeding the HSA contribution limits established by the IRS. If applicable, the employee may also make contributions up to the HSA contribution limits established by the IRS. Winland makes contributions to the plan on a per payroll basis. The contributions cannot be refunded to Winland if the employee's employment with Winland is terminated voluntarily or involuntarily. Winland contributed approximately \$22 and \$17 to the plan for the years ended December 31, 2023 and 2022, respectively.

Note 9. Revenue Recognition

Revenues are recognized when control of the promised goods or services is 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 Years Ended December 31,	
	2023	2022
Hardware sales	\$ 3,840	\$ 3,658
Subscription service	313	306
Cryptocurrency	635	882
	<u>\$ 4,788</u>	<u>\$ 4,846</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. The Company has not had unearned revenue collected but not recognized as of both December 31, 2023 and 2022.

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.

Contract balances: Unearned revenues arise when revenues are invoiced but cannot be recognized until the completion of service over time.

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 years ended December 31, 2023 and 2022, respectively.

9) Disclosure & Financial Information (Continued)

Note 9. Revenue Recognition (Continued)

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.

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 19).

9) **Disclosure & Financial Information (Continued)**

Note 10. Selected Quarterly Financial Information (Unaudited)

The following tables set forth a summary of the Company's quarterly financial information for each of the four quarters ended December 31, 2023 and 2022 (in thousands except share and per share data).

	Quarter Ended			
	March 31	June 30	September 30	December 31
2023				
Net sales				
Product and services	\$ 799	\$ 922	\$ 1,157	\$ 1,275
Cryptocurrency	130	154	146	205
Total net sales	<u>929</u>	<u>1,076</u>	<u>1,303</u>	<u>1,480</u>
Cost of sales				
Product and services	515	573	709	799
Cryptocurrency	151	180	165	174
Total cost of sales	<u>666</u>	<u>753</u>	<u>874</u>	<u>973</u>
Gross profit	<u>263</u>	<u>323</u>	<u>429</u>	<u>507</u>
Operating expenses:				
General and administrative	148	177	163	182
Sales and marketing	114	129	112	139
Research and development	87	76	16	30
Cryptocurrency	-	9	-	5
Realized and unrealized (gain) loss on cryptocurrency, net *	(839)	(191)	247	(1,059)
Total operating expenses	<u>(490)</u>	<u>200</u>	<u>538</u>	<u>(703)</u>
Operating income (loss)	<u>753</u>	<u>123</u>	<u>(109)</u>	<u>1,210</u>
Other Income	1	9	32	11
Income (loss) before income taxes	<u>754</u>	<u>132</u>	<u>(77)</u>	<u>1,221</u>
Income tax expense	-	-	-	20
Net income (loss)	<u>\$ 754</u>	<u>\$ 132</u>	<u>\$ (77)</u>	<u>\$ 1,201</u>
Net income (loss) per common share				
Basic	\$ 0.16	\$ 0.03	\$ (0.03)	\$ 0.26
Diluted	\$ 0.16	\$ 0.03	\$ (0.03)	\$ 0.26
Weighted-average number of common shares outstanding				
Basic	4,618,063	4,640,242	4,667,471	4,689,879
Diluted	4,618,063	4,640,242	4,667,471	4,689,879

*Reflects the retrospective impact of the early-adoption of ASU 2023-08, effective January 1, 2023

9) Disclosure & Financial Information (Continued)

Note 10. Selected Quarterly Financial Information (Unaudited) (Continued)

	Quarter Ended			
	March 31	June 30	September 30	December 31
2022				
Net sales				
Product and services	\$ 954	\$ 942	\$ 945	\$ 1,123
Cryptocurrency	376	270	175	61
Total net sales	<u>1,330</u>	<u>1,212</u>	<u>1,120</u>	<u>1,184</u>
Cost of sales				
Product and services	641	586	572	702
Cryptocurrency	146	149	181	161
Total cost of sales	<u>787</u>	<u>735</u>	<u>753</u>	<u>863</u>
Gross profit	<u>543</u>	<u>477</u>	<u>367</u>	<u>321</u>
Operating expenses:				
General and administrative	120	133	130	128
Sales and marketing	109	133	91	116
Research and development	124	129	166	141
Unrealized loss on cryptocurrency	116	830	31	165
Total operating expenses	<u>469</u>	<u>1,225</u>	<u>418</u>	<u>550</u>
Operating income (loss)	<u>74</u>	<u>(748)</u>	<u>(51)</u>	<u>(229)</u>
Other expense	1	-	(10)	11
Income (loss) before income taxes	<u>75</u>	<u>(748)</u>	<u>(61)</u>	<u>(218)</u>
Income tax expense	-	-	-	46
Net income (loss)	<u>\$ 75</u>	<u>\$ (748)</u>	<u>\$ (61)</u>	<u>\$ (264)</u>
Net income per common share				
Basic	\$ 0.02	\$ (0.16)	\$ (0.02)	\$ (0.06)
Diluted	\$ 0.02	\$ (0.16)	\$ (0.02)	\$ (0.06)
Weighted-average number of common shares outstanding				
Basic	4,600,975	4,618,063	4,618,063	4,618,063
Diluted	4,618,010	4,618,063	4,618,063	4,618,063

9) Disclosure & Financial Information (Continued)

Note 11. 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.

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these instruments.

Recurring measurement of fair value: The following table presents information about the Company's assets measured at fair value on a recurring basis and the Company's estimated level within the fair value hierarchy of those assets as of December 31, 2023 and 2022, respectively:

WINLAND HOLDINGS CORPORATION RECURRING FAIR VALUE MEASUREMENT (In Thousands)

As of December 31, 2023

	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Level 1	Level 2	Level 3
Cash equivalent	\$ 786	\$ -	\$ -	\$ 786	\$ 786	\$ -	\$ -
Cryptocurrency	\$ 2,619	\$ 470	\$ -	\$ 3,089	\$ 3,085	\$ 4	\$ -
Long-term marketable securities	\$ 6	\$ -	\$ (5)	\$ 1	\$ 1	\$ -	\$ -
Total	<u>\$ 3,411</u>	<u>\$ 470</u>	<u>\$ (5)</u>	<u>\$ 3,876</u>	<u>\$ 3,872</u>	<u>\$ 4</u>	<u>\$ -</u>

As of December 31, 2022

	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Level 1	Level 2	Level 3
Cash equivalent	\$ 649	\$ -	\$ -	\$ 649	\$ 649	\$ -	\$ -
Long-term marketable securities	\$ 20	\$ -	\$ (14)	\$ 6	\$ 6	\$ -	\$ -
Total	<u>\$ 669</u>	<u>\$ -</u>	<u>\$ (14)</u>	<u>\$ 655</u>	<u>\$ 655</u>	<u>\$ -</u>	<u>\$ -</u>

9) Disclosure & Financial Information (Continued)

Note 11. Financial Instruments (Continued)

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 December 31, 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 12. Other Income

Other income consisted of the following:

	For the Years Ended December 31,	
	2023	2022
Dividend income	27	-
Interest income	3	3
Marketable securities (Note 12)	(5)	(11)
Rights to payment (Note 16)	3	9
Proceeds from class action lawsuit (Note 18)	26	-
Other income	\$ 53	\$ 1

Note 13. 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)

	Winland Electronics	Winland Capital Corp.	Winland Mining LLC	Other	Total
<i>Year ended December 31, 2023</i>					
Cash	\$ 209	\$ 532	\$ 91	\$ 164	\$ 995
Total assets	2,183	942	3,770	(145)	6,751
Net sales	4,153	-	635	-	4,788
Depreciation	25	-	189	-	214
Income (loss) before taxes	357	(25)	1,693	5	2,030
Income tax expense (benefit)	105	(5)	(80)	-	20
<i>Year ended December 31, 2022</i>					
Cash	\$ 312	\$ 486	\$ 6	\$ 157	\$ 961
Total assets	1,931	923	1,609	(151)	4,312
Net sales	3,964	-	882	-	4,846
Depreciation	23	-	206	-	229
Income (loss) before taxes	82	(38)	(997)	1	(952)
Income tax expense (benefit)	26	(58)	(483)	561	46

9) Disclosure & Financial Information (Continued)

Note 14. Rights to Payment

The components of rights to payment were as follows, net of any proceeds:

	December 31, 2023	December 31, 2022
Cryptocurrency-related claims	\$ 350	\$ 350
Total, net	\$ 350	\$ 350

Winland Credit invested \$0 in rights to payment during both of the years ended December 31, 2023 and 2022. Winland Credit received payments of \$22 and \$0 for rights to payment during the years ended December 31, 2023 and 2022, respectively. Winland Credit had a receivable of \$0 and \$22 related to rights to payment as of December 31, 2023 and 2022, respectively. Winland Credit recognized a gain of \$0 and \$9 for the years ended December 31, 2023 and 2022, respectively. The Company believes all rights to payment are collectible as of December 31, 2023.

Note 15. 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 for the year ended December 31, 2023 and \$4 for the year ended 2022, of which \$0 and \$3 were included in accounts payable as of December 31, 2023 and 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 \$12 for both of the years ended December 31, 2023 and 2022, of which \$18 and \$6 was included in accounts payable as of December 31, 2023 and 2022, respectively.

Note 16. 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.

Note 17. 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.

9) Disclosure & Financial Information (Continued)

Note 17. Winland Mining LLC (Continued)

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.

The following table presents information regarding the Winland Mining operations including Bitcoin production and sales of the Bitcoin mined.

	Quantity	Amount
Balance as of December 31, 2021	56	\$ 1,728
Additions - Revenue from Bitcoin Mining	29	882
Disposition - Proceeds from sale of Bitcoin	(14)	(367)
Realized gain on sale of Bitcoin	-	53
Impairment of Bitcoin	-	(1,193)
Balance as of December 31, 2022	71	1,103
Cumulative effect of adoption of ASU 2023-08	-	69
Additions - Revenue from Bitcoin Mining	22	635
Disposition - Proceeds from sale of Bitcoin	(20)	(563)
Realized loss on sale of Bitcoin	-	(350)
Unrealized gain on sale of Bitcoin	-	2,192
Balance as of December 31, 2023	73	3,086

Bitcoin had a market price of \$42 per Bitcoin as of December 31, 2023. Winland Mining owned other cryptocurrency with a fair value of \$3 and \$3 as of December 31, 2023 and 2022, respectively.

Note 18. 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. This office space will be used for the Company's operations including customer service, technical support, and finance. In July 2023, Winland Electronics and Fisher Exchange LLC agreed to a two-year extension. The lease agreement expires on March 31, 2026. 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 \$23 and \$11 as of December 31, 2023 and 2022, respectively.

Note 19. Loss on Disposal of Equipment

In June 2023, 5 of the Bitmain S19 95 TH/S and 3 of the Canaan Avalon Miner 1246 90 TH/S cryptocurrency miners operated by Winland Mining were deemed unrepairable and disposed of. In December 2023, 4 of the Bitmain S19 95 TH/S and 3 of the Avalon Miner 1246 90 TH/S cryptocurrency miners were deemed unrepairable and disposed of, resulting in a loss of \$14 for the period ending December 31, 2023.

Note 20. Subsequent Events

The Company has evaluated subsequent events through March 29, 2024, the date the consolidated financial statements were issued for events requiring adjustment to or disclosure in the consolidated financial statements.

On February 1, 2024, the Company, through its wholly-owned subsidiary Winland Mining, acquired 25 Bitmain L7 9050M cryptocurrency miners from FRMO Corporation in exchange for 42,145 shares of the Company's common stock.

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.

March 29, 2024

/s/ Matthew D. Houk

Chairman, Chief Executive Officer, Chief Financial Officer