

# WINLAND HOLDINGS CORPORATION

A Minnesota Corporation

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SIC Code: 3823

## **Interim Report For the Period Ending: June 30, 2019**

As of June 30, 2019, the number of shares outstanding of our Common Stock was:

3,794,450

As of December 31, 2018, the number of shares outstanding of our Common Stock was:

3,789,522

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 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:

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

Yes:

No:

**1) Name 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.

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

Yes:  No:

**2) Security Information**

Trading symbol:	WELX	
Exact title and class of securities outstanding:	Common Stock	
CUSIP:	97424Q106	
Par or stated value:	\$0.01	
Total shares authorized:	20,000,000	as of date: June 30, 2019
Total shares outstanding:	3,794,450	as of date: June 30, 2019
Number of shares in the Public Float:	2,048,444	as of date: June 30, 2019
Total number of shareholders of record:	271	as of date: June 30, 2019

Transfer Agent

Name: Computershare  
Phone: 800-368-5948  
Email: web.queries@computershare.com

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

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:

*None.*

**3) Issuance History**

**A. Changes to the Number of Outstanding Shares**

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods:

Number of Shares outstanding as of January 1, 2017		<u>Opening Balance:</u> Common: <u>3,789,522</u> Preferred: <u>0</u>		*Right-click the rows below and select "Insert" to add rows as needed.					
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?
4/19/2019	New Issuance	2,200	Common	\$1.05	No	Thomas J. Brady	Options Exercised	Restricted	Securities Act Section 4(a)(2)
4/29/2019	New Issuance	2,728	Common	\$1.25	No	Lorin E. Krueger	Options Exercised	Restricted	Securities Act Section 4(a)(2)
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Shares Outstanding on June 30, 2019:		<u>Ending Balance:</u> Common: <u>3,794,450</u> Preferred: <u>0</u>							

**B. Debt Securities, Including Promissory and Convertible Notes**

Check this box if there are no outstanding promissory, convertible notes or debt arrangements:

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) 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: **Brian D. Lawrence**  
Title: **President & CFO**  
Relationship to Issuer: **Officer of Issuer**

4) Consolidated Financial Statements (Continued)

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

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 791	\$ 849
Short-term marketable securities (Note 11)	-	235
Short-term investments (Note 14)	-	34
Rights to payment (Note 15)	466	322
Accounts receivable, less allowance for doubtful accounts of \$8 as of both June 30, 2019 and December 31, 2018 (Note 2)	411	398
Inventories (Note 4)	718	901
Prepaid expenses and other assets	74	46
<b>Total current assets</b>	<b>2,460</b>	<b>2,785</b>
<b>Property and Equipment, at cost</b>		
Property and equipment	363	363
Less accumulated depreciation	344	338
<b>Net property and equipment</b>	<b>19</b>	<b>25</b>
Equity method investment (Note 9)	136	149
Long-term marketable securities (Note 11)	5	5
<b>Total long-term assets</b>	<b>141</b>	<b>154</b>
<b>Total assets</b>	<b>\$ 2,620</b>	<b>\$ 2,964</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 348	\$ 571
Accrued liabilities:		
Compensation	44	59
Unearned revenue	88	51
Other	15	15
<b>Total current liabilities</b>	<b>495</b>	<b>696</b>
<b>Stockholders' Equity (Note 6)</b>		
Common stock, par value \$0.01 per share; authorized 20,000,000 shares; issued and outstanding 3,794,450 as of June 30, 2019 and 3,789,522 as of December 31, 2018	38	38
Additional paid-in capital	5,111	5,111
Accumulated deficit	(3,024)	(2,881)
<b>Total stockholders' equity</b>	<b>2,125</b>	<b>2,268</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,620</b>	<b>\$ 2,964</b>

See Notes to Condensed Consolidated Financial Statements

4) 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		For the Six Months Ended	
	June 30,		June 30,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net sales (Note 2)	\$ 814	\$ 1,105	\$ 1,638	\$ 2,037
Cost of sales	<u>579</u>	<u>745</u>	<u>1,153</u>	<u>1,367</u>
<b>Gross profit</b>	<u>235</u>	<u>360</u>	<u>485</u>	<u>670</u>
Operating expenses:				
General and administrative	162	161	325	314
Sales and marketing	117	120	235	224
Research and development	<u>27</u>	<u>16</u>	<u>72</u>	<u>49</u>
Total operating expenses	<u>306</u>	<u>297</u>	<u>632</u>	<u>587</u>
<b>Operating income (loss)</b>	<u>(71)</u>	<u>63</u>	<u>(147)</u>	<u>83</u>
Other income (expense) (Note 12)	<u>(12)</u>	<u>16</u>	<u>4</u>	<u>5</u>
<b>Net income (loss)</b>	<u>\$ (83)</u>	<u>\$ 79</u>	<u>\$ (143)</u>	<u>\$ 88</u>
Income (loss) per common share data:				
Basic	\$ (0.02)	\$ 0.02	\$ (0.04)	\$ 0.02
Diluted	\$ (0.02)	\$ 0.02	\$ (0.04)	\$ 0.02
Weighted-average number of common shares outstanding:				
Basic	3,793,881	3,789,522	3,791,713	3,789,522
Diluted	3,793,881	3,840,255	3,791,713	3,839,450

See Notes to Condensed Consolidated Financial Statements

4) Consolidated Financial Statements (Continued)

**WINLAND HOLDINGS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In Thousands)  
(unaudited)

	For the Six Months Ended June 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (143)	\$ 88
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	6	8
Net unrealized gain from marketable securities	-	(15)
Loss on investment in equity method investment	13	14
Increase (decrease) in allowance for obsolete inventory	15	(15)
Changes in assets and liabilities:		
Accounts receivables	(13)	(247)
Inventories	168	(242)
Prepaid expenses and other assets	(28)	(21)
Accounts payable	(223)	138
Unearned revenue	37	40
Accrued liabilities	(15)	(11)
<b>Net cash used in operating activities</b>	<b>(183)</b>	<b>(263)</b>
<b>Cash flows from investing activities</b>		
Proceeds from marketable securities	235	-
Purchases of rights to payment	(192)	(128)
Proceeds from rights to payment	48	-
Purchases of investments	-	(42)
Proceeds from investments	34	4
<b>Net cash provided by (used in) investing activities</b>	<b>125</b>	<b>(166)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(58)</b>	<b>(429)</b>
Cash and cash equivalents		
Beginning	849	1,596
Ending	\$ 791	\$ 1,167

See Notes to Condensed Consolidated Financial Statements

#### **4) Consolidated Financial Statements (Continued)**

##### **Note 1. Basis of Presentation**

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 six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

The condensed consolidated balance sheet at December 31, 2018 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, 2018.

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

Winland Electronics is an industry leader in critical condition monitoring devices. Products including 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”). 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), and marketable securities.

The footnotes related to dollars are in thousands unless noted.



#### 4) 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 six months ended June 30, 2019 and 2018 as follows:

Sales percentage:	For the Three Months Ended June 30,	
	2019	2018
Customer A	49%	73%
Customer B	17%	10%

Sales percentage:	For the Six Months Ended June 30,	
	2019	2018
Customer A	50%	63%
Customer B	14%	13%

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

Accounts receivable percentage:	June 30,	
	2019	2018
Customer A	42%	74%
Customer B	31%	14%

##### 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 and warrants to purchase shares of common stock at various amounts per share (see Note 6).

For the three months ended June 30, 2019, the basic loss per share was (\$0.02) based on 3,793,881 shares outstanding. The diluted loss per share was (\$0.02) for the three months ended June 30, 2019, based on 3,793,881 shares outstanding. Diluted shares outstanding excluded 35,231 of dilutive option shares outstanding as the impact of such shares would be anti-dilutive. For the three months ended June 30, 2018, the basic income per share was \$0.02 based on 3,789,522 shares outstanding. The diluted income per share was \$0.02 for the three months ended June 30, 2018, based on 3,840,255 shares outstanding, including 50,733 of dilutive option shares outstanding.

For the six months ended June 30, 2019, the basic loss per share was (\$0.04) based on 3,791,713 shares outstanding. The diluted loss per share was (\$0.04) for the six months ended June 30, 2019, based on 3,791,713 shares outstanding. Diluted shares outstanding excluded 37,441 of dilutive option shares outstanding as the impact of the share would be anti-dilutive. For the six months ended June 30, 2018, the basic income per share was \$0.02 based on 3,789,522 shares outstanding. The diluted income per share was \$0.02 for the six months ended June 30, 2018, based on 3,839,450 shares outstanding, including 49,928 of dilutive option shares outstanding.

##### Note 4. Inventories

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

	June 30, 2019	December 31, 2018
Raw materials	\$ 54	\$ 42
Finished goods	664	859
Total, net	\$ 718	\$ 901

#### 4) 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 June 30, 2019 and December 31, 2018.

##### Note 6. Stock-Based Awards

At June 30, 2019, there was no unrecognized compensation cost related to share-based payments.

The following table summarizes information about stock options outstanding at June 30, 2019:

Range of Exercise Prices	Number of Shares	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$0.500 - \$0.599	35,000	3.0	\$ 0.51	35,000	\$ 0.51
\$0.600 - \$0.799	35,000	1.9	0.70	35,000	0.70
\$0.800 - \$0.899	11,000	0.6	0.89	11,000	0.89
	81,000	2.3	\$ 0.64	81,000	\$ 0.64

##### Note 7. 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 \$1,675 as of both June 30, 2019 and December 31, 2018.

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 six months ended June 30, 2019 and 2018, 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 \$143 pre-tax loss from continuing operations for the six months ended June 30, 2019. The Company had no income tax expense on its \$88 pre-tax income from continuing operations for the six months ended June 30, 2018. 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 2015 through 2018 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 June 30, 2019 and 2018, the Company recognized no interest or penalties related to uncertain tax positions.

#### **4) Consolidated Financial Statements (Continued)**

##### **Note 7. Income Taxes (Continued)**

At December 31, 2018, the Company had net operating loss carryforwards for federal purposes of \$6,291 and \$4,581 for state income tax purposes that are available to offset future taxable income and begin to expire in the year 2031 and 2023, respectively. At December 31, 2018, the Company had Minnesota research and development tax credit carryforwards of \$12, which begin to expire in the year 2023. 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. See Note 8, which more fully describes the Section 382 Rights Agreement approved by the Company.

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

##### **Note 8. Shareholder Rights Plan**

The Company entered into a Section 382 Rights Agreement with its transfer agent Computershare Limited, dated as of February 27, 2014 (the "382 Rights Agreement"). The Rights expired on March 10, 2019. The purpose of the 382 Rights Agreement was to help protect the Company's net operating loss tax asset by deterring certain acquisitions of Company stock by persons or groups beneficially owning 5% or more of the Company's outstanding stock, which could have the effect of limiting the Company's ability to use its built in losses and any resulting net loss carryforwards to reduce potential future federal income tax obligations. The Company's ability to use its net loss carryforwards in the future may be significantly limited if it experiences an "ownership change" for U.S. federal income tax purposes. In general, an ownership change will occur when the percentage of the Company's ownership (by value) of one or more "5 percent shareholders" (as defined in the Internal Revenue Code of 1986, as amended) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis).

Under the 382 Rights Agreement, from and after the record date of March 10, 2014 (the "Record Date"), each share of Company Common Stock carried with it one preferred share purchase right (a "Right"). In connection with adoption of the 382 Rights Agreement, the Board declared a dividend distribution of the Rights to shareholders of record on the Record Date. Each Right allowed its holder to purchase from the Company one one-thousandth of a share of Series B Junior Participating Preferred Stock for \$14.00 (the "Exercise Price"). The Rights were not exercisable until 10 days after the public announcement that a person or group had become an "Acquiring Person" by obtaining beneficial ownership of 4.99% or more of the Company's outstanding Common Stock, or by the future acquisition of any shares of Company common stock by any person or group who held 4.99% or more of the Company's outstanding common stock as of the date the 382 Rights Agreement was adopted. If a person or group had become an Acquiring Person, all holders of Rights except the Acquiring Person could have purchased, for payment of the Exercise Price, shares of Common Stock with a market value of twice the Exercise Price, based on the market price of the Common Stock as of the acquisition that resulted in such person or group becoming an Acquiring Person. Prior to exercise, the Right did not give its holder any dividend, voting, or liquidation rights.

The Board had discretion under the 382 Rights Agreement to exempt any person or group from status as an Acquiring Person if the Board determined that such person or group's acquisition would not limit the Company's use of its net loss carryforwards.

##### **Note 9. Equity Method Investment**

In July 2015, the Company completed an investment of \$200 in Northumberland IX LLC ("Northumberland"), a related party through common ownership and an entity formed with another third party to invest a total of \$1,200 in EDG-PMA, LLC ("EDG-PMA"), itself an entity formed in cooperation with Exhibits Development Group, LLC ("EDG") to develop, design, construct, market, place, own, and operate a traveling museum exhibition known as *The Magical History Tour: A Beatles Memorabilia Exhibition*. Northumberland's investment in EDG-PMA is effectively structured as convertible preferred equity. The convertible preferred equity pays an irregular

#### 4) Consolidated Financial Statements (Continued)

##### Note 9. Equity Method Investment (Continued)

preferred dividend at a rate of 10% per annum on any outstanding principal balance and is immediately convertible into 30% of EDG-PMA common equity upon repayment of Northumberland's \$1,200 principal amount, the timing of such repayment being dependent on the distributable cash flow of EDG-PMA. Until repayment of Northumberland's \$1,200 principal amount, the convertible preferred equity is entitled to the entirety of EDG-PMA distributable cash flow. Prior to the repayment of principal, the Company's interest in Northumberland is proportionate to its \$200 investment. Following the repayment of principal, the Company's distribution rights in Northumberland shall be 83.33%. The Company has no obligation to provide any further funding to either Northumberland or EDG-PMA.

The Company recognized a loss of \$13 and \$14 for the six months ended June 30, 2019 and 2018, respectively on the investment in Northumberland which is included in other income (expense) on the statement of operations. A summary of the assets, liabilities, and results of operations of Northumberland for the six months ended June 30, 2019 and 2018 is presented below:

	2019	2018
<b>Total assets</b>	\$ 815	\$ 1,145
<b>Total liabilities</b>	\$ -	\$ -
<b>Net gain (loss)</b>	\$ (78)	\$ (85)

##### Note 10. Significant Accounting Policies

Revenue recognition: The Company recognizes revenue from both hardware sales and subscription services.

*Hardware sales* - For all hardware sales, the Company has a binding purchase order from the customer. Revenue is recognized from the sale of products when the product is delivered to a common carrier for shipment and title transfers. 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.

*Subscription service* - Revenue from reseller and direct end-user agreements are recognized ratably over the term of the contract, which is typically one year of service. Each group has standard pricing with exceptions handled on a case by case basis which are not believed to materially impact the recognition of service revenue in total. Billing occurs quarterly for one year of service.

The Company does not generally accept returns but does provide a limited warranty. Sales and use taxes are reported on a net basis, excluding them from sales and cost of sales.

##### Note 11. Financial Instruments

**Marketable securities:** The Company's marketable equity securities are carried at fair value. Beginning January 1, 2018 realized and unrealized gains are reported in other income. Prior to January 1, 2018 realized and unrealized gains and losses, net of taxes, were reported as a component of accumulated other comprehensive income ("AOCI") in shareholders' equity, with the exception of unrealized losses believed to be other-than-temporary which were reported in earnings in the current period. (See Note 1) 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.

#### 4) Consolidated Financial Statements (Continued)

##### Note 11. Financial Instruments (Continued):

*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 June 30, 2019 and December 31, 2018:

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

**As of June 30, 2019**

	<u>Adjusted Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Cash and Cash Equivalents</u>	<u>Short-Term Marketable Securities</u>	<u>Long-Term Marketable Securities</u>
Cash	\$ 791	\$ -	\$ -	\$ 791	\$ 791	\$ -	\$ -
Level 1: Investments	20	-	(15)	5	-	-	5
Total	<u>\$ 811</u>	<u>\$ -</u>	<u>\$ (15)</u>	<u>\$ 796</u>	<u>\$ 791</u>	<u>\$ -</u>	<u>\$ 5</u>

**As of December 31, 2018**

	<u>Adjusted Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Cash and Cash Equivalents</u>	<u>Short-Term Marketable Securities</u>	<u>Long-Term Marketable Securities</u>
Cash	\$ 849	\$ -	\$ -	\$ 849	\$ 849	\$ -	\$ -
Level 1: Investments	170	70	-	240	-	235	5
Total	<u>\$ 1,019</u>	<u>\$ 70</u>	<u>\$ -</u>	<u>\$ 1,089</u>	<u>\$ 849</u>	<u>\$ 235</u>	<u>\$ 5</u>

#### 4) Consolidated Financial Statements (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 June 30, 2019, 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 (Expense)

Other income (expense) consisted of the following for the three and six months ended June 30, 2019 and 2018 (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Northumberland (Note 9)	\$ (13)	\$ -	\$ (13)	\$ (14)
Other	-	-	-	1
Interest income	2	2	3	3
Marketable securities (Note 11)	(1)	14	-	15
Investments (Note 14)	-	-	14	-
<b>Other income (expense)</b>	<b>\$ (12)</b>	<b>\$ 16</b>	<b>\$ 4</b>	<b>\$ 5</b>

#### 4) Consolidated Financial Statements (Continued)

##### Note 13. Segment Reporting

Effective January 1, 2018, the Company began reporting results of operations by two unique reportable segments, Winland Electronics and Winland Capital Corp.

#### WINLAND HOLDINGS CORPORATION SEGMENT REPORTING

(\$ in Thousands)  
(unaudited)

	Winland Electronics, Inc.	Winland Capital Corp.	Other	Total
<i>Three months ended June 30, 2019</i>				
Equity method investment	\$ -	\$ 136	\$ -	\$ 136
Cash	148	343	300	791
Total assets	1,367	952	301	2,620
Net sales	814	-	-	814
Depreciation	3	-	-	3
Equity method investment loss	-	(13)	-	(13)
Income (loss) before taxes	(58)	(26)	1	(83)
Income tax expense	-	-	-	-
<i>Three months ended June 30, 2018</i>				
Equity method investment	\$ -	\$ 191	\$ -	\$ 191
Cash	1,041	122	4	1,167
Total assets	2,520	491	51	3,062
Net sales	1,105	-	-	1,105
Depreciation	4	-	-	4
Equity method investment loss	-	-	-	-
Income before taxes	67	12	-	79
Income tax expense	-	-	-	-
<i>Six months ended June 30, 2019</i>				
Equity method investment	\$ -	\$ 136	\$ -	\$ 136
Cash	148	343	300	791
Total assets	1,367	952	301	2,620
Net sales	1,638	-	-	1,638
Depreciation	6	-	-	6
Equity method investment loss	-	(13)	-	(13)
Income (loss) before taxes	(120)	(24)	1	(143)
Income tax expense	-	-	-	-
<i>Six months ended June 30, 2018</i>				
Equity method investment	\$ -	\$ 191	\$ -	\$ 191
Cash	1,041	122	4	1,167
Total assets	2,520	491	51	3,062
Net sales	2,037	-	-	2,037
Depreciation	8	-	-	8
Equity method investment loss	-	(14)	-	(14)
Income before taxes	95	(7)	-	88
Income tax expense	-	-	-	-

#### 4) Consolidated Financial Statements (Continued)

##### Note 14. Investments

Winland Capital invested \$42 in a secured promissory note during the six months ended June 30, 2018. Repayments of \$34 and \$4 occurred during the six months ended June 30, 2019 and 2018, respectively. A gain of \$14 was recognized during the six months ended June 30, 2019.

Winland Capital purchased a short-term marketable security for \$150 in August 2018. The fair value of the investment was \$235 as of December 31, 2018. The investment was sold during the six months ended June 30, 2019 for \$235.

##### Note 15. Rights to Payment

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

	June 30, 2019	December 31, 2018
Cryptocurrency-related claims	301	109
Trade claims	99	147
Other claims	66	66
Total, net	<u>\$ 466</u>	<u>\$ 322</u>

Winland Credit invested \$192 and \$128 in rights to payment during the six months ended June 30, 2019 and 2018, respectively. Proceeds of \$48 were recognized during the six months ended June 30, 2019. Proceeds in excess of cost are shown in other income.

#### 5) Issuer's Business, Products and Services

Winland is the holding company for Winland Electronics and Winland Capital Corp., both wholly-owned subsidiaries of the Company. The contact information for the Company and subsidiaries is as follows:

1950 Excel Drive  
Mankato, MN 56001  
800-635-4269  
investors@winland.com

Winland Electronics is an industry leader in critical condition monitoring devices. Products including 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 and Winland Capital. 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), and marketable securities.

#### 6) Issuer's Facilities

The Company currently occupies 1,924 square feet of office space at 1950 Excel Drive, Mankato, MN, which is leased on a month-to-month basis from Nortech Systems, Incorporated. The property is in good condition and suitable for the Company's current use.



7) **Officers, Directors, and Control Persons**

<b>Name of Officer/Director and Control Person</b>	<b>Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)</b>	<b>Residential Address (City / State Only)</b>	<b>Number of shares owned</b>	<b>Share type/class</b>	<b>Ownership Percentage of Class Outstanding</b>	<b>Note</b>
Thomas R. Braziel	Co-Chairman and Co-Chief Executive Officer	New York, NY	578,874	Common	15.3%	(1)
Matthew D. Houk	Co-Chairman and Co-Chief Executive Officer	New Vernon, NJ	477,799	Common	12.6%	(2)
Brian D. Lawrence	President & CFO	North Mankato, MN	0	Common	0%	
Thomas J. Brady	Director	Maple Grove, MN	72,498	Common	1.9%	(3)
Lorin E. Krueger	Director	Mankato, MN	129,407	Common	3.4%	(4)
Murray Stahl	Director	Chappaqua, NY	568,428	Common	15.0%	(5)
David B. Houk	Owner of more than 5%	Louisville, KY	195,238	Common	5.2%	(6)

- 1) According to Thomas Braziel, as of June 30, 2019, B.E. Capital Management LP, B.E. Capital Partners LLC, Thomas Braziel and David Earls, beneficially own the shares which Mr. Braziel who has sole power to vote or to dispose of such shares. The address for B.E. Capital Partners LLC is 15 East 67th Street, 6th Floor, New York, NY 10065.
- 2) According to Matthew D. Houk, as of June 30, 2019, he beneficially owns and has sole power to vote or to dispose of such shares. The address for Matthew D. Houk is c/o Horizon Kinetics LLC, 470 Park Avenue South, 4th Floor, New York, NY 10016.
- 3) Includes 2,155 shares held by Mr. Brady's spouse and 45,500 shares which may be purchased by Mr. Brady upon exercise of currently exercisable options.
- 4) Includes 35,500 shares which may be purchased by Mr. Krueger upon exercise of currently exercisable options.
- 5) According to Murray Stahl, as of June 30, 2019, the shares are beneficially owned by FRMO Corp., which has sole power to vote or to dispose of such shares. Murray Stahl, Chairman and Chief Executive Officer and an owner of more than 5% of FRMO Corp., is designated as the control person. The address for FRMO Corp. is One North Lexington Ave., Suite 12C, White Plains, NY 10601.
- 6) According to David B. Houk, as of June 30, 2019, he beneficially owns and has sole power to vote or to dispose of such shares. The address for David B. Houk is P.O. Box 22145, Louisville, Kentucky 40252.

Name of Control Person

FRMO Corp., which acquired greater than 5% of the Company's outstanding common stock on November 14, 2014. Murray Stahl, Chairman and Chief Executive Officer and an owner of more than 5% of FRMO Corp., is designated as the control person.

B.E. Capital Management LP and B.E. Capital Partners LLC, which acquired greater than 5% of the Company's outstanding common stock on November 29, 2012. Thomas Braziel 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.

David B. Houk, who acquired greater than 5% of the Company's outstanding common stock on December 5, 2013.

**8) 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.*

**9) Third Party Providers**

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

Accountant or Auditor

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

Other Service Providers

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: alorentz@fredlaw.com

**10) Issuer Certification**

We, Thomas R. Braziel and Matthew D. Houk, certify that:

1. We have reviewed this 2019 Q2 OTC Interim Filing of Winland Holdings Corporation;
2. Based on our 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 our knowledge, the consolidated 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.

August 13, 2019  
/s/ Thomas R. Braziel  
Co-Chairman and Co-Chief Executive Officer

August 13, 2019  
/s/ Matthew D. Houk  
Co-Chairman and Co-Chief Executive Officer

I, Brian D. Lawrence certify that:

1. I have reviewed this 2019 Q2 OTC Interim Filing of 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 consolidated 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.

August 13, 2019  
/s/ Brian D. Lawrence  
President and Chief Financial Officer