

WINLAND ELECTRONICS INC  
Form 10-K  
March 19, 2010

---

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

---

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 1-15637

WINLAND ELECTRONICS, INC.  
(Exact name of registrant in its charter)

Minnesota  
(State or other jurisdiction of incorporation or organization)

41-0992135  
(IRS Employer Identification Number)

1950 Excel Drive, Mankato Minnesota  
(Address of principal executive offices)

56001  
(Zip code)

Registrant's telephone number, including area code: (507) 625-7231

Securities registered pursuant to Section 12(b) of the Exchange Act:

| Title of Each Class             | Name of Exchange        |
|---------------------------------|-------------------------|
| Common Stock, \$.01 par value   | American Stock Exchange |
| Preferred Stock Purchase Rights | American Stock Exchange |

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

Edgar Filing: WINLAND ELECTRONICS INC - Form 10-K

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the Common Stock held by non-affiliates as of June 30, 2009 was \$2,447,331 based on the closing sale price of the Issuer's Common Stock on such date.

There were 3,686,435 shares of Common Stock, \$.01 par value, outstanding as of March 15, 2010.

**DOCUMENTS INCORPORATED BY REFERENCE PURSUANT TO RULE 12b-23:**

Portions of the Company's Proxy Statement for its 2010 Annual Meeting are incorporated by reference into Part III.

---

TABLE OF CONTENTS

PART I

|                 |  |
|-----------------|--|
| <u>ITEM 1.</u>  | <u>DESCRIPTION OF BUSINESS.</u>          |
| <u>ITEM 1A.</u> | <u>RISK FACTORS.</u>                     |
| <u>ITEM 1B.</u> | <u>UNRESOLVED STAFF COMMENTS.</u>        |
| <u>ITEM 2.</u>  | <u>DESCRIPTION OF PROPERTY.</u>          |
| <u>ITEM 3.</u>  | <u>LEGAL PROCEEDINGS.</u>                |
|                 | <u>EXECUTIVE OFFICERS OF THE COMPANY</u> |

PART II

|                 |  |
|-----------------|--|
| <u>ITEM 5.</u>  | <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.</u> |
| <u>ITEM 6.</u>  | <u>SELECTED FINANCIAL DATA.</u>  |
| <u>ITEM 7.</u>  | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.</u>                         |
| <u>ITEM 7A.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.</u>   |
| <u>ITEM 8.</u>  | <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.</u>  |
| <u>ITEM 9.</u>  | <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.</u>                         |
| <u>ITEM 9A.</u> | <u>CONTROLS AND PROCEDURES.</u>  |
| <u>ITEM 9B.</u> | <u>OTHER INFORMATION.</u>  |

PART III

|                 |  |
|-----------------|--|
| <u>ITEM 10.</u> | <u>DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.</u>   |
| <u>ITEM 11.</u> | <u>EXECUTIVE COMPENSATION.</u>   |
| <u>ITEM 12.</u> | <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.</u> |
| <u>ITEM 13.</u> | <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.</u>   |
| <u>ITEM 14.</u> | <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES.</u>   |
| <u>ITEM 15.</u> | <u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>  |

SIGNATURES

EXHIBIT INDEX

Consent of Baker Tilly Virchow Krause, LLP

Consent of McGladrey and Pullen, LLP

Certification of CEO Pursuant to Section 302

Certification of CFO Pursuant to Section 302

Certification of CEO Pursuant to Section 906

Certification of CFO Pursuant to Section 906

---

PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

Winland Electronics, Inc. (“Winland”, “Company”, “we” or “our”) was incorporated as a Minnesota corporation in October 1972. Winland designs and manufactures custom electronic controls and assemblies primarily for original equipment manufacturer (“OEM”) customers, providing services from early concept studies through complete product realization. Revenues from OEM customers provided 85.8% of Winland’s total revenue in 2009. In addition to the electronic design and manufacturing services Winland provides to OEM customers, the Company has designed and marketed for more than 20 years a proprietary line of environmental monitoring products to the security industry. In most cases, these products are manufactured to protect against loss of assets due to damage from water, excess humidity, extremes of temperature and loss of power. These Winland branded and trademarked products accounted for 14.2% of the Company’s total revenue in 2009.

Segments

Winland designs, produces and distributes products in two segments defined as “Electronic Manufacturing Services (“EMS”) for OEM Customers” and “Proprietary Products,” primarily for the security industry.

Winland’s EMS segment consists of the design and manufacture of printed circuit board assemblies and higher level products sold mainly to OEM customers. Winland offers complete solutions to OEM customer needs by providing value-added services that complement its contract manufacturing capabilities. This is part of a “concept to product realization” strategy, the elements of which may include, among other things, product concept studies, product design, printed circuit board design, design for manufacturing, higher level assembly and box build, repair service, and legacy support. These services differentiate Winland from many of its competitors and are intended to increase customer satisfaction, confidence, and loyalty. Winland views EMS customers as strategic partners and works to provide these partners with high levels of production flexibility, product quality, on-time delivery, cost efficiency and engineering proficiency.

Winland’s proprietary products segment represents an established line of environmental security products that can monitor critical environments including simple and sophisticated microprocessor and mechanically controlled sensors and alarms. These products monitor and detect critical environmental changes, such as changes in temperature or humidity, water leakage and power failures.

The Company’s remaining activities are included in “Other”. Unallocated corporate level expenses, which include costs related to the administrative functions performed in a centralized manner and not attributable to particular segments (e.g., executive compensation expense, accounting, human resources and information technology support), are reported in the reconciliation of the segment totals to consolidated totals as “Other” items.

EMS Sales

Winland provides design and manufacturing services to OEM customers in such industries as the medical, industrial, transportation and scientific instrumentation market segments. Winland’s management believes that its direct sales force and industry network relationships effectively provide Winland an opportunity to gain market share in targeted market segments within the EMS industry. One of Winland’s key marketing and growth objectives is to form long-term business partnerships with prospective OEM customers by working directly with the customers’ design, manufacturing and supply chain leaders to ensure alignment of Winland’s value proposition and fulfillment strategies

with the customer's products and business models. The intent is to create a degree of technological interdependence between Winland and its customer. With this in mind, Winland has worked to identify new OEM customers that need a broad range of EMS services in addition to their manufacturing needs. Winland's growth plan is based on providing its OEM customers a strong value proposition, with a customer-intimate strategy that is centered in exceptional service, application-specific technical expertise, exceptional quality and strategic business model alignment.

Table of Contents

Page 3

---

### Proprietary Products Sales and Distribution

Winland markets and sells its proprietary products primarily through an established network of distributors, dealers, security installers and integrators. Winland employs three experienced full-time sales professionals, including an International Sales Manager who is also a Product Manager, an Eastern Regional Sales Manager and a Western Regional Sales Manager. In addition, the Company has engaged four independent manufacturers' sales representative organizations who are responsible for territory-based commissioned sales. This distribution network is primarily located in the United States, Canada, Mexico and Europe.

### Competition

Winland's business includes the design and manufacture of custom electronic controls and assemblies for OEM customers and the development and marketing of proprietary security/industrial products. The contract electronic design and manufacturing services industry is very competitive, both domestically and internationally.

Beginning in mid-2008, the Company began a series of improvement initiatives intended to expand and diversify its customer base, reduce waste and inefficiency, improve quality, delivery, performance and service, and refine and redefine its value and service proposition. The Company began by attracting top-tier EMS industry talent, revising and optimizing business systems, upgrading manufacturing processes, and adopting quality-optimizing Six Sigma methodologies.

Competition among the security industry has increased in the last several years as additional companies have introduced competing products. Significant competitive factors in the market for security products include product effectiveness and features, price, reliability and company reputation. Winland believes that it competes favorably with respect to product effectiveness, features, price and reliability. However, given its size and relatively small presence in this market, many of Winland's competitors have an advantage by being larger, better-known and better-financed.

### Source of Raw Materials

Raw material components and some subassemblies are purchased from outside vendors, monitored through a vendor qualification process and inspected in accordance with Winland's inspection policies before being incorporated into products. Certain purchased components and subassemblies are manufactured to design specifications furnished by Winland, while others are standard off-the-shelf items. Winland utilizes multiple sources for the off-the-shelf components, but generally maintains only one source for the items manufactured to design specifications. However, alternative sources are available should the Company's existing source be unable to perform. In addition to manufacturing its own products, Winland has contracted with companies to provide both finished goods assemblies and component assemblies designed to their specifications.

### Significant Customers

Winland has worked to develop long-term, mutually beneficial relationships with its OEM customers. Due to the nature of Winland's contract manufacturing relationships, there is a significant degree of dependence between both the customers and Winland. Winland retains the identity of its customers due to the competitive nature of the contract manufacturing industry. Net sales to Customer A were \$8.7 million, or 38.7% of total net sales in 2009 and \$9.5 million, or 33.2% of total net sales in 2008. Customer A is a Minnesota based onboard fleet management solutions provider for the trucking industry. Net sales for Customer B were \$2.6 million, or 11.5% of total net sales in 2009 and \$3.2 million, or 11.0% of total net sales in 2008. Customer B is a global leader in the manufacture of compact, professional electronic test tools, and is based in Washington. Net sales to Customer C were \$2.5 million, or 11.2%

of total net sales in 2009 and \$1.0 million, or 3.7% of total net sales in 2008. Customer C is a Florida based medical products company. Net sales to Customer D were \$1.4 million, or 6.4% of total net sales in 2009 and \$4.5 million, or 15.9% of total net sales in 2008. Customer D is a Minnesota based air-sleep system manufacturer in the bedding industry. No other customer equaled or exceeded 10% of net sales for 2009 or 2008.

During the fourth quarter of 2008, Customer D notified Winland of its intentions to let the Master Supply Agreement between the companies expire in March 2009. They indicated they would be transitioning back to a single source supplier other than Winland for its electronic assemblies. Winland worked with Customer D and its new single source supplier throughout 2009 to transition raw and finished goods inventory without interrupting Customer D's supply chain. As of December 31, 2009, Winland had \$79,000 of raw inventory on hand specific to Customer D for which its new supplier had issued a purchase order to Winland. Winland expects the final sale of this raw inventory to take place in 2010.

Table of Contents

Page 4

---



In 2009, approximately 46.1%, or \$1.4 million of all of the Company's proprietary products sales were to one of the world's largest security products distributors, down from 48.8%, or \$1.6 million in 2008.

Winland derived less than 1% of its revenues from sales outside the United States for the years ended December 31, 2009 and 2008.

#### Patents, Trademarks and Licenses

Winland holds federal trademark registrations for marks used in its business as follows: WATERBUG, TEMP ALERT, ENVIRONMENTAL SECURITY and ENVIROALERT.

#### Research and Development

Throughout 2009, Winland worked to provide complete product realization services to its OEM customers for design of industrial and medical products to be manufactured by Winland. Winland's product realization services include: product requirements specification; analog and digital circuit design, low power radio frequency design; embedded software design; mechanical design, 3D modeling, and custom enclosure design; printed circuit board design, rapid prototyping, production test equipment development, design for testability and design for manufacturability. Winland believes that with its internal engineering capability and approved outside engineering consultants it will be able to meet the current needs of its customer base. OEM customer R&D programs generated \$1,159,000 of net sales in 2009 compared to \$1,041,000 of net sales in 2008. In addition, Winland spent \$40,000 in 2009 developing or improving its proprietary products compared to \$309,000 in 2008. This decrease in R&D was related to the completion of a new product release in early 2008.

#### Personnel

At December 31, 2009, Winland had 82 employees (81 full time and one part time). During 2009 and 2008, Winland also used temporary labor services during peak production times. Winland is not subject to a collective bargaining agreement and considers its relations with its employees to be good.

#### ITEM 1A. RISK FACTORS

Based on current and known information, Winland believes that the following identifies the most significant risk factors that could affect its business. However, the risks and uncertainties Winland faces are not limited to those discussed below. There could be other unknown or unpredictable economic, business, competitive or regulatory factors, including factors that Winland currently believes to be immaterial, that could in fact have material adverse effects on Winland's financial position, liquidity, and results of operations. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

You should consider the following risk factors, in addition to other information presented or incorporated by reference into this Annual Report on Form 10-K in evaluating Winland's business and your investment in Winland.

Winland is dependent on a small number of customers and such customer's response to the current uncertain economic conditions.

Winland's Electronic Manufacturing Services (EMS) product sales are dependent on a small number of original equipment manufacturer (OEM) customers with the top two customers together representing 50% of total Company

sales. Accordingly, Winland is dependent on the continued growth, viability and financial stability of its largest customers, which consist of original equipment manufacturers of fleet management global positioning systems (GPS) and test and precise measurement equipment. Winland generally does not obtain firm, long-term purchase commitments from its customers, and has often experienced reduced lead times in customer orders. Customers may cancel their orders, change production quantities, and delay production for a number of reasons. Uncertain economic conditions have resulted, and may continue to result, in some of Winland's customers delaying the delivery of some of the products manufactured for them and placing purchase orders for lower volumes of products than previously anticipated. Cancellations, reductions, or delays by a significant customer or by a group of customers have harmed, and may continue to harm, Winland's results of operations by reducing the volumes of products manufactured, as well as by causing a delay in the recovery of its expenditures for inventory in preparation for customer orders and lower asset utilization resulting in lower gross margins.

Table of Contents

Page 5

---

Winland is subject to intense competition in the EMS industry.

Winland competes against many providers of electronics manufacturing services. Certain competitors have substantially greater resources and geographically diversified United States and international operations. Winland may also be at a competitive disadvantage with respect to price when compared to manufacturers with lower cost structures and enhanced volume supplier purchasing capability. Accordingly, to compete effectively, Winland must continue to provide technologically advanced manufacturing services, maintain strict quality standards, respond flexibly and rapidly to customers' design and schedule changes and deliver products on a reliable basis at competitive prices. Customers may cancel their orders, change production quantities or delay production. Start-up costs and inefficiencies related to new or transferred programs can adversely affect operating results and such costs may not be recoverable if such new programs or transferred programs are cancelled.

Winland's operating results may vary significantly from period to period.

Winland experiences fluctuations in its operating results. Some of the principal factors that contribute to these fluctuations are: Winland's effectiveness in managing manufacturing processes, costs and availability of components so that components are available when needed for production, while mitigating risks of purchasing inventory in excess of immediate production needs; the degree to which Winland is able to utilize its available manufacturing capacity; changes in the cost and availability of components, which often occur in the electronics manufacturing industry and which affect Winland and its ability to meet delivery schedules; and changes in demand for Winland's products. Results of operations in any period, therefore, should not be considered indicative of the results to be expected for any future period.

Winland's operating results, financial condition and cash flows may be adversely impacted by the affect the current global economic uncertainty has on its customers.

The current economic uncertainty has severely impacted banks and other lenders, limiting the ability of many businesses to the access of credit markets. Winland's customers may choose to delay or postpone purchases of products from Winland until the economy and their businesses strengthen and this may affect its operating results, financial condition and delay and lengthen sales cycles. A continued uncertainty in the global economy could have a material adverse affect on Winland's results of operations and financial condition.

The current capital and credit market conditions may adversely affect Winland's access to capital, cost of capital and business operations.

The general economic and capital market conditions in the United States and the world have adversely affected businesses access to capital as well as an increased cost of such capital. If the current economic conditions in the United States and the world remain uncertain, Winland's cost of debt and equity capital and the access to capital markets could be adversely affected. Although Winland currently has access to \$1,650,000, pursuant to its line of credit agreement with Marshall & Ilsley Bank (M&I), this line of credit expires in June 2010. Although M&I has granted one year extensions on the line of credit in the past, there can be no assurance that M&I will do so in the future, and if it does grant extensions, there can be no assurance that the terms of such extensions will not be on terms that are more burdensome and/or costly to Winland.

Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations.

Winland requires effective internal control over financial reporting in order to provide reasonable assurance with respect to its financial reports and to effectively prevent fraud. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the circumvention or overriding of

controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurances with respect to the preparation and fair presentation of financial statements.

Table of Contents

Page 6

---

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. DESCRIPTION OF PROPERTY

Winland owns its office and manufacturing facility located in Mankato, Minnesota. The 58,000 square foot building consists of 32,500 square feet of manufacturing space, 10,000 square feet of warehouse space and 15,500 square feet of office space, all of which is used by Winland. Management believes the current facility adequately supports its current and near future operations. Management carries insurance on its property and believes it is adequately covered. The office and manufacturing facility has a net book value of \$2,277,000 including land and is subject to a mortgage with an aggregate debt of \$552,000 as of December 31, 2009.

ITEM 3. LEGAL PROCEEDINGS

None.

[Table of Contents](#)

Page 7

---

## EXECUTIVE OFFICERS OF THE COMPANY

The name and ages of all of the Company's executive officers and the positions held by them are listed below.

| Name               | Age | Position   |
|--------------------|-----|--|
| Thomas J. de Petra | 63  | President and Chief Executive Officer                |
| Glenn A. Kermes    | 49  | Executive Vice President and Chief Financial Officer |
| Warren E. Mitchell | 49  | Vice President of Operations and Supply Chain        |
| David A. Kuklinski | 48  | Vice President of Sales and Marketing                |

Thomas J. de Petra was appointed Chief Executive Officer and President on May 6, 2008, and has been a Director of the Company since 1994. Mr. de Petra founded and was the president of Vantage Advisory Services LLC, providing management consulting and business advisory services. While serving as a self-employed management consultant, from 1996 to 2008, Mr. de Petra served in various interim executive officer roles. Mr. de Petra also served as Chief Executive Officer of Nortech Forest Technologies, Inc., a publicly traded company, from February 1996 to June 1997.

Glenn A. Kermes has served as the Company's Chief Financial Officer since October 2, 2006 and was promoted to Executive Vice President on January 9, 2009. Between September 2004 and June 2006, Mr. Kermes served as Vice President and Chief Financial Officer of Ross Manufacturing, a manufacturer of frozen dessert equipment in Escanaba, Michigan. From January 2004 to September 2004, Mr. Kermes served as the North American Controller for the Kendro Division of SPX Corporation, a publicly traded consumer goods company. Mr. Kermes served as Worldwide Operations Controller of the Hand Tools Division of Newell Rubbermaid, a publicly traded consumer goods company with manufacturing operations, from July 2002 to January 2004; and he served as Controller for Continental Teves, an automotive tier one supplier, from June 2000 to July 2002.

Warren E. Mitchell joined the Company in February 2008 as its Executive Supply Chain Leader and was promoted to Vice President of Operations and Supply Chain in June 2008. From April 2005 to June 2007, Mr. Mitchell served as Head of Worldwide Supply Chain Management for HiRel Systems. From March 2001 to April 2005, Mr. Mitchell served as Vice President Worldwide Supply Chain Management/Strategic Materials for Pemstar an EMS provider. Prior to that, Mr. Mitchell held engineering and operational management positions at several large multi-national Electronic companies.

David A. Kuklinski joined the Company in September of 2008 as Director of Sales and Marketing and was promoted to Vice President of Sales and Marketing in December 2008. From July 2007 to September 2008, Mr. Kuklinski served as Business Development Director for ATS Automation an industrial and medical repetitive equipment manufacturer. From March 2005 to March 2006, Mr. Kuklinski served as Business Development Director for Solectron Corporation. From May 2002 to December 2004, Mr. Kuklinski served as Business Development Director

for Jabil Circuit, Inc. an EMS provider.

Table of Contents

Page 8

---

## PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES

Winland's Common Stock is listed on the NYSE AMEX under the symbol WEX. The following table sets forth the high and the low market closes, as reported by NYSE AMEX during 2009 and 2008.

| Fiscal Year Ended December 31, 2009 | Low    | High   |
|-------------------------------------|--------|--------|
| First Quarter                       | \$0.43 | \$0.77 |
| Second Quarter                      | \$0.50 | \$0.80 |
| Third Quarter                       | \$0.65 | \$0.92 |
| Fourth Quarter                      | \$0.71 | \$0.87 |
| Fiscal Year Ended December 31, 2008 |        |        |
|                                     | Low    | High   |
| First Quarter                       | \$1.95 | \$2.44 |
| Second Quarter                      | \$1.52 | \$2.08 |
| Third Quarter                       | \$0.89 | \$1.60 |
| Fourth Quarter                      | \$0.39 | \$0.95 |

On March 15, 2010, the fair market value of Winland's Common Stock was \$1.15 based on the closing sale price quoted by NYSE AMEX on that date. As of December 31, 2009, Winland had approximately 382 registered shareholders of record.

Winland has never paid cash dividends on its Common Stock. The Board of Directors presently intends to retain any earnings for use in its business and does not anticipate paying cash dividends on Common Stock in the foreseeable future.

## ITEM 6: SELECTED FINANCIAL DATA

None.

## ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

## EXECUTIVE SUMMARY

Over the course of 2009, the Company began to see improvements which were based on its efforts which began in 2008, to achieve best-in-class ranking within the low-volume, high mix, regional electronic manufacturing services market space. The gains that Winland has made – solid new customer acquisitions, robust quoting activity and improvements in customer performance – have not come rapidly enough to dim the reality of its 2009 operating performance. As Winland worked to improve its results with customers, it also tightly managed cash and credit capacity. Winland completed two staff reductions without any significant severance payments and initiated cost containment and deferral programs that included a freeze on capital expenditures and a modest wage reduction.



Throughout 2009, Winland struggled with the combined impact of a difficult economy, the departure of several significant OEM customers and the long sales cycle that characterizes the electronic manufacturing services industry. Beginning in the first quarter of 2009, all but one of our EMS customers required that we either halt or significantly reduce production of their products to avoid the buildup of inventories in the absence of known demand from their customers. As a result, most of our customers who had historically provided us with production forecasts ranging from three to nine months, cautiously reduced their order visibility to only a few weeks. Within our EMS business segment, this level of caution remained until the fourth quarter, when some customers began to provide us production forecasts into the first two quarters of 2010.

Table of Contents

Page 9

---

Our first priority remained identifying and winning new business opportunities. We had a number of new customer wins that started with limited engagements, prototypes, qualification builds and design engineering projects that transitioned to manufacturing. These new relationships help us diversify our sales base and fit very well into the low-volume, high mix business model that best aligns Winland's capability to the quality, delivery and service requirements of our customers. We attracted new customers in the fields of transportation safety systems, scientific instrumentation and optical systems for industrial and aerospace applications. We expanded our customer reach into the medical device field with new design and development activity that is now in production. Through the efforts of our design engineering department, we are a Premier Design Partner of Cymbet Corporation, a leader in solid state energy storage and energy harvesting power management solutions. In a variety of applications, including Winland's wireless temperature and humidity sensors, Cymbet products eliminate the use of traditional batteries. We believe our design and development expertise with this technology has both design and manufacturing revenue potential with EMS customers and our Winland proprietary products.

During the second, third and fourth quarters of the year, our quality and on-time delivery performance, for the first time, each exceeded 99%. This level of customer performance is consistent with our objectives of customer satisfaction and retention, long-term growth and value creation for our shareholders. This customer performance has also earned us new opportunities to quote additional programs from existing customers that were not previously open to us. From October through the end of 2009, our quote activity increased four or five-fold from previous quarters, the cause of which we believe is increasing confidence by customers in the economic outlook, as well as escalating trust in Winland's ability to be price-competitive, while exceeding the customer performance of our peers.

Sales of Winland's proprietary line of critical environment monitoring solutions declined, but to a significantly lesser degree than our EMS business. This modest decline in sales was primarily due to our aggressive investment in supporting our distribution channel, including our decision to hire eastern and western regional sales managers and engage, over the course of the year, four regional domestic manufacturers' representative organizations and one Canadian representative organization. These actions increased market awareness of our product line among distributors and security integrators, providing them new commercial door-opening sales opportunities as an alternative to their declining residential market segment.

#### RESULTS OF OPERATIONS – 2009 vs. 2008

The Company reported a net loss of \$1,531,000 or \$0.42 per basic and diluted share for the year ended December 31, 2009 compared to the \$1,028,000 net loss or \$0.28 per basic and diluted share for the same period in 2008. The increase in net loss was driven by a \$6,118,000 decrease in net sales compared to a year ago. Under utilization of manufacturing fixed costs due to lower sales was the primary reason for the increased loss.

##### Net Sales

Net sales for the year ended December 31, 2009 were \$22,547,000 down \$6,118,000 or 21% compared to the same period in 2008. EMS net sales declined 24%, or \$5,936,000 to \$19,356,000 during 2009, compared to a year ago. Customer D, who transitioned to a different supplier during 2009 accounted for \$3,100,000 of this decrease. In addition, Winland's top two customers' sales were down \$1,366,000. These declines in sales were partially offset by Customer C's increased sales of \$1,480,000. In addition, Winland had sales of \$1,796,000 from three other customers in 2008 each of who did not place orders with Winland in 2009. Sales from engineering services increased \$160,000 to \$1,160,000 for the year ended December 31, 2009 compared to 2008. These sales are part of EMS net sales noted above. Proprietary products net sales declined 5% to \$3,191,000, a \$182,000 decrease compared to a year ago. Sales to Winland's largest distributor were down \$164,000 compared to 2008.

##### Operating Loss

The Company reported an operating loss of \$1,903,000 and \$1,017,000 for the years ended December 31, 2009 and 2008, respectively. Gross margin percentage of 10.0% in 2009 was down from the 12.2% reported for 2008. Continuing under utilization of manufacturing fixed costs during 2009 contributed to the decreased margin percentages. Winland partially offset this under utilization by making significant improvements in its manufacturing and procurement processes resulting in reduced warranty expense of \$102,000 and reduced obsolescence expenses of \$77,000, reducing its workforce resulting in reduced wages and benefits of \$479,000. In addition, the Company's research and development expenses decreased \$326,000 due to significantly less new product development costs incurred in 2009 as compared to 2008.

The Company's EMS segment had an operating loss of \$103,000 for 2009 compared to operating income of \$1,099,000 for 2008. EMS gross margins were 2.2% and 7.3% for 2009 and 2008, respectively. Decreased sales and the under utilization of manufacturing fixed costs were the primary factors driving the loss partially offset by reduced wages and benefits of \$439,000, warranty expenses of \$102,000 and reduced obsolescence expenses of \$77,000. In addition, the Company's research and development expenses decreased \$326,000 due to significantly less new product development costs incurred in 2009 as compared to 2008.

Table of Contents

The Company's Proprietary products segment operating income increased \$137,000 for 2009, to \$264,000 compared to a year ago. Gross margins improved from 40.7% to 41.6% as the result of improved manufacturing processes. During 2009, Winland continued investing in its sales and marketing efforts by hiring two experienced, industry specific regional sales managers and contracted with four regional distribution representative agencies. While this investment led to higher salaries expenses and commission fees, sales were able to remain comparable with a year ago avoiding the potential of significant declines due to the economy. The increased costs were offset by reduced spending on the Company's new product development.

For 2009, General and Administrative expenses decreased \$179,000. During 2009, Winland reduced staff leading to reduced salaries expenses of \$94,000. In addition, in 2008 Winland incurred increased business and occupation tax expense and associated penalties totaling \$29,000 paid to the State of Washington for multiple tax years being filed at once. For segment reporting purposes, General and Administrative expenses are shown as "Other" as discussed in Note 2 to the Financial Statements.

#### Interest Expense and Other, Net

Interest expense and other consists primarily of interest expense and miscellaneous income. Interest expense for 2009 was \$99,000 compared to \$126,000 during the same period a year ago. This decrease relates to the reduced outstanding balances on Winland's notes payable and capital lease obligations during 2009 as compared to 2008.

#### Income Tax

Winland 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. During 2009 and 2008, Winland recorded a \$106,000 and \$271,000 tax valuation allowance, respectively, related to its deferred tax assets. The Company recognized income tax benefit of \$481,000 for the year ended December 31, 2009, primarily the result of carrying back 2009's net operating loss to tax years 2004 and 2005 due to the Worker, Homeownership and Business Assistance Act of 2009, net of an adjustment to unrecognized tax benefits of \$129,000. In comparison, the Company recognized an income tax benefit of \$89,000 for the year ended December 31, 2008, primarily the result of the valuation allowance on its net deferred tax assets. As discussed in Note 6 to the Financial Statements, income tax benefits were calculated using an estimated annual blended federal and state income tax rate of (24)% and (8)% for 2009 and 2008, respectively.

#### LIQUIDITY AND CAPITAL RESOURCES

For 2009, the Company's operating activities used cash of \$30,000 as its net operating loss and changes in working capital were almost entirely offset by non-cash adjustments for depreciation, stock compensation and losses on disposal of equipment. In comparison, operating activities used cash of \$74,000 as its net operating loss and changes in working capital were almost entirely offset by non-cash adjustments for depreciation, stock compensation and deferred taxes for 2008. Cash used in investing activities was used to acquire capital equipment of \$264,000 and \$237,000 for 2009 and 2008, respectively. Cash of \$392,000 and \$512,000 for 2009 and 2008, respectively, was used to pay down long-term debt. For 2009, \$367,000 of cash was provided by borrowings on the Company's revolving line-of-credit. Cash provided from the exercise of stock options and issuance of common stock was \$10,000 and \$27,000 for 2009 and 2008, respectively.

The current ratio was 3.1 to 1 at December 31, 2009 and 2.8 to 1 at December 31, 2008. Working capital equaled \$4.9 million on December 31, 2009, compared to \$6.0 million on December 31, 2008.

#### Table of Contents



At December 31, 2009 and 2008, the outstanding balance on the revolving credit agreement was \$367,000 and \$0, respectively. At December 31, 2009, \$1,650,000 was available for borrowing under the terms of this agreement compared to \$3,193,000 available as of December 31, 2008. The significant change in available borrowings between years was the result of Amendment No. 14, as described below, which reduced the maximum line from \$4,000,000 to \$2,500,000. During 2009, Winland and M&I amended the Company's revolving credit agreement based on changes in the banking industry due to the economy and Winland's recent financial performance. Summaries of each amendment are as follows:

On June 30, 2009, Winland and M&I executed Amendment No. 13 to Credit Agreement, which further amended the Credit and Security Agreement dated June 30, 2003. This amendment amends the definition of "Maturity Date" to be June 28, 2010, changes the definition of LIBOR rate to read three percent (3.00%), changed how the revolving note shall accrue interest to be the greater of four and one-half percent (4.50%) per annum or the LIBOR Rate and reduced the Company's minimum tangible net worth to \$8,000,000 as of the end of each fiscal quarter commencing June 30, 2009.

On September 30, 2009, Winland and M&I executed Amendment No. 14 to Credit Agreement, which further amended the Credit and Security Agreement. This amendment amends the definition of Borrowing Base to be the lesser of the maximum line or 80% of eligible accounts, reduces eligible accounts by the amounts from Customer A in excess of 40% concentration and all other customers in excess of 15% concentration, reduced the maximum line from \$4,000,000 to \$2,500,000, changed the interest the revolving note shall bear to be the minimum of 5% per annum or the LIBOR rate along with reducing the Company's minimum tangible net worth to \$7,300,000 as of the end of each fiscal quarter commencing September 30, 2009.

On December 31, 2009, Winland and M&I executed Amendment No. 15 to Credit Agreement, which further amended the Credit and Security Agreement. This amendment amends the definition of borrowing base to be the lesser of the Maximum Line or 80% of Eligible Accounts less both the Company's accrued liability for warranties and outstanding amounts for the rendition of engineering services by the Borrower, reduces eligible accounts by the amounts from Customer A in excess of 35% concentration as of December 31, 2009 with a 5% reduction in allowable concentration every six months thereafter and requires management to furnish the borrowing base certification on a weekly basis along with a detailed aging of the Company's outstanding accounts receivable.

The Company's management believes that its cash balance, availability of funds under the line of credit agreement with M&I, and anticipated cash flows from operations will be adequate to fund its cash requirements for working capital, investing and financing activities during the next year assuming the line of credit is extended at June 28, 2010. Current conditions in the capital markets are uncertain; however, management believes the Company will have adequate access to capital markets to fund such cash requirements if M&I does not extend the line of credit agreement.

#### Liquidity Impacts of Uncertain Tax Positions

As discussed in Note 6 of the Financial Statements, Winland has liabilities associated with unrecognized tax benefits and related interest. These liabilities are included as long-term tax liabilities in Winland's balance sheet because the Company generally does not anticipate that settlement of the liabilities will require payment of cash within the next twelve months. Winland is not able to reasonably estimate when it would make any cash payments required to settle these liabilities, but do not believe that the ultimate settlement of its obligations will materially affect its liquidity.

#### CRITICAL ACCOUNTING ESTIMATES

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Winland cannot assure you that actual results will not differ from those estimates. Winland believes the following are the most critical judgments and estimates used in the preparation of its financial statements.

**Revenue Recognition.** In most cases, revenue is recognized from the sale of products and out of warranty repairs when the product is delivered to a common carrier for shipment and title transfers.

Revenue recognition occurs for engineering design services as services are completed. Winland had an agreement with one particular customer to amortize the cost of engineering design services as part of the piece part cost of the manufactured unit. For the year ended December 31, 2008, the customer had paid Winland approximately \$31,000 for these services. The cost was amortized to the customer's units during 2009. These payments were classified as unearned revenue and recorded in Other Accrued Expenses on the balance sheet as of December 31, 2008.

Table of Contents

Page 12

---

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. For all sales, Winland either has a binding purchase order or customer accepted and signed engineering quote as evidence of the arrangement. Winland does not generally accept returns but does provide a limited warranty as outlined below under Allowance for Rework and Warranty Costs.

**Inventory Valuation.** Raw component and finished goods inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or market 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 inventories was \$562,000 and \$569,000 as of December 31, 2009 and 2008, respectively. Reserve requirements generally increase as projected demand requirements decrease due to market conditions, technological and product life cycle changes as well as longer than previously expected usage periods. It is possible that significant charges to record inventory at the lower of cost or market may occur in the future if there is a further decline in market conditions.

**Long-lived Assets.** Net long-lived assets amounted to \$4.3 million at December 31, 2009. 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. In particular, if the Company no longer believes it will achieve its long-term projected sales or operating expenses, the Company may conclude in connection with any future impairment tests that the estimated fair value of our long-lived assets are less than the book value and recognize an impairment charge. Such impairment would adversely affect earnings.

**Allowance for Doubtful Accounts.** Winland evaluates its allowance for uncollectible accounts on a quarterly basis and reviews any significant customers with delinquent balances to determine future collectability. Winland bases its determinations on legal issues, past history, current financial and credit agency reports, and experience. Winland reserves for accounts deemed to be uncollectible in the quarter in which the determination is made. Management believes these values are estimates and may differ from actual results. Winland believes that, based on past history and credit policies, the net accounts receivable are of good quality. Bad debt expense for the year ended December 31, 2009 was \$51,000 offset by collection of \$60,000 for a previously written off bad debt. Bad debt expense for the year ended December 31, 2008 was \$109,000. The Allowance for Doubtful Accounts was \$49,000 and \$127,000 at December 31, 2009 and 2008, respectively.

**Allowance for Rework and Warranty Costs.** Winland provides a limited warranty to its OEM customers who require it to repair or replace product that is defective, due to Company workmanship issues, at no cost to the customer. In addition, Winland provides a limited warranty for its proprietary 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 specific customer 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 \$45,000 and \$80,000 as of December 31, 2009 and 2008, respectively. The product warranty liability reflects management's best estimate of probable liability under Winland's product warranties and may differ from actual results.



Deferred Taxes. Deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Realization of deferred tax assets is dependent on future taxable income during the period that deductible temporary differences and carry-forwards are to be available to reduce taxable income. As of December 31, 2009 and 2008, Winland recorded a \$377,000 and \$271,000 tax valuation allowance, respectively related to our deferred tax assets because of uncertainties related to the ability to utilize certain Federal and state net loss carry-forwards due to our historical losses and net tax operating loss carry-forward position. The valuation allowance is based on estimates of taxable income by jurisdiction and the period over which Winland's deferred tax assets are recoverable. In addition, Winland reevaluates the technical merits of its tax positions and recognize an uncertain tax benefit, or derecognize a previously recorded tax benefit, when (i) there is a completion of a tax audit, (ii) there is a change in applicable tax law including a tax case or legislative guidance, or (iii) there is an expiration of the statute of limitations. Significant judgment is required in accounting for tax reserves. Although Winland believes that it has adequately provided for liabilities resulting from tax assessments by taxing authorities, positions taken by these tax authorities could have a material impact on Winland's effective tax rate in future periods.

Subsequent events: The Company evaluates events occurring after the date of the financial statements for events requiring recording or disclosure in the financial statements.

Table of Contents

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective September 15, 2009, Winland adopted FASB SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (“ASC”). FASB ASC is effective for interim and annual periods ending after September 15, 2009. All accounting literature not included in the Codification will be non-authoritative. The adoption of this FASB ASC did not impact the Company’s financial statements or its results of operations.

Effective January 1, 2009, Winland adopted FASB ASC 810, Consolidation. FASB ASC 810 requires all entities to report non-controlling interests as equity in the consolidated financial statements. The adoption of FASB ASC 810 did not have an impact to the Company’s financial statements or results of operations.

Effective January 1, 2009, Winland adopted FASB ASC 820, Fair Value Measurements and Disclosures. FASB ASC 820 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. The adoption of FASB ASC 820 did not have an impact to the Company’s financial statements.

## CAUTIONARY STATEMENTS

Certain statements contained in this Annual Report on Form 10-K and other written and oral statements made from time to time by Winland do not relate strictly to historical or current facts. As such, they are considered “forward-looking statements” that provide current expectations or forecasts of future events. Such statements can be identified by the use of terminology such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “could,” “possibly,” “project,” “should,” “will,” “forecast” and similar words or expressions. Winland’s forward- looking statements generally relate to its purchase order levels, building market share in the EMS market, growth strategies, financial results, product development, sales efforts and sufficiency of capital. One must carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions, including, among others, those discussed below. Consequently, no forward-looking statement can be guaranteed, and actual results may vary materially from results or circumstances described in such forward looking statements. As provided for under the Private Securities Litigation Reform Act of 1995, Winland wishes to caution investors that the following important factors, among others, in some cases have affected and in the future could affect Winland’s actual results of operations and cause such results to differ materially from those anticipated in forward-looking statements made in this document and elsewhere by or on behalf of Winland.

Winland derives a significant portion of its revenues from a limited number of OEM customers that are not subject to long-term contracts with Winland;

Winland’s ability to compete successfully depends, in part, upon the price at which Winland is willing to manufacture a proposed product and the quality of its design and manufacturing services;

there is no assurance that Winland will be able to continue to obtain contracts from existing and new customers on financially advantageous terms, and the failure to do so could prevent it from achieving the growth it anticipates;

some of Winland’s customers are not large, well-established companies and the business of each customer is subject to various risks such as market acceptance of new products;

## Table of Contents



the current economic crisis in the United States and the world has had a negative impact on nearly all businesses, including uncertainty among Winland's customers;

Winland's current customers may choose to delay or postpone purchases of products from Winland until the economy and their businesses stabilize and this may affect Winland's operating results, financial condition and delay and lengthen sales cycles;

an overall uncertainty in economic activity may also have a negative impact on Winland's customer's ability to pay for the products or services they purchase from Winland;

Winland's ability to increase revenues and profits is dependent upon its ability to retain valued existing customers and obtain new customers that fit its customer profile;

Winland's ability to execute its initiatives to increase sales and expand market share depends upon its ability to develop additional value added capabilities and/or proprietary products and technologies and on the availability of sufficient financing, both equity and debt, to meet fixed and variable costs associated with such growth;

In addition, see "Risk Factors" under Item 1A, which includes a discussion of additional risk factors and a more complete discussion of some of the cautionary statements noted above.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

[Table of Contents](#)

Page 15

---

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are at the pages set forth below:

|  |       |
|--|-------|
| Reports of Independent Registered Public Accounting Firms for Years Ended December 31, 2009 and 2008 | 17-18 |
| Balance Sheets as of December 31, 2009 and 2008  | 19-20 |
| Statements of Operations for Years Ended December 31, 2009 and 2008                                  | 21    |
| Statements of Changes in Stockholders' Equity for Years Ended December 31, 2009 and 2008             | 22    |
| Statements of Cash Flows for Years Ended December 31, 2009 and 2008                                  | 23    |
| Notes to Financial Statements  | 24-34 |

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors  
Winland Electronics, Inc.  
Mankato, Minnesota

We have audited the accompanying balance sheet of Winland Electronics, Inc. as of December 31, 2009, and the related statements of operations, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winland Electronics, Inc. as of December 31, 2009 and the results of its operations and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota  
March 19, 2010

Table of Contents

Page 17

---

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders  
Winland Electronics, Inc.

We have audited the accompanying balance sheet of Winland Electronics, Inc. as of December 31, 2008 and the related statements of operations, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winland Electronics, Inc. as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of Winland Electronics Inc.'s internal control over financial reporting as of December 31, 2008 included in the Company's Annual Report under the caption "Management's Report on Internal Control over Financial Reporting" and, accordingly, we do not express an opinion thereon.

/s/ McGladrey & Pullen, LLP

Minneapolis, Minnesota  
March 17, 2009

Table of Contents

Page 18

---

Winland Electronics, Inc.  
Balance Sheets  
December 31, 2009 and 2008  
(In Thousands)

|   | December 31, |           |
|---|--------------|-----------|
|   | 2009         | 2008      |
| Assets  |              |           |
| Current Assets  |              |           |
| Cash and cash equivalents   | \$ 55        | \$ 356    |
| Accounts receivable, less allowance for doubtful<br>accounts of \$49 and \$127, respectively (Note 9) | 2,823        | 3,901     |
| Refundable income taxes (Note 6)  | 1,023        | 595       |
| Inventories (Note 3)  | 3,039        | 4,337     |
| Prepaid expenses and other assets   | 256          | 231       |
| Total current assets  | 7,196        | 9,420     |
| Property and Equipment, at cost (Note 4)  |              |           |
| Land and land improvements  | 383          | 383       |
| Building  | 3,052        | 3,052     |
| Machinery and equipment   | 7,001        | 7,028     |
| Data processing equipment   | 1,198        | 1,183     |
| Office furniture and equipment  | 460          | 466       |
| Unfinished property and equipment   | 172          | -         |
| Total property and equipment  | 12,266       | 12,112    |
| Less accumulated depreciation and amortization  | 7,937        | 7,201     |
| Net property and equipment  | 4,329        | 4,911     |
| Total assets  | \$ 11,525    | \$ 14,331 |

See Notes to Financial Statements.

[Table of Contents](#)

Page 19

---



Winland Electronics, Inc.  
Balance Sheets  
December 31, 2009 and 2008  
(In Thousands, Except Share Data)

|   | December 31, |           |
|---|--------------|-----------|
|   | 2009         | 2008      |
| Liabilities and Stockholders' Equity  |              |           |
| Current Liabilities   |              |           |
| Revolving line-of-credit  | \$ 367       | \$ -      |
| Current maturities of long-term debt (Note 4)   | 380          | 392       |
| Accounts payable  | 1,132        | 2,457     |
| Accrued liabilities:  |              |           |
| Compensation  | 369          | 446       |
| Other   | 49           | 121       |
| Total current liabilities   | 2,297        | 3,416     |
| Long-Term Liabilities   |              |           |
| Long-term debt, less current maturities (Note 4)  | 699          | 1,079     |
| Deferred revenue (Note 5)   | 122          | 130       |
| Other long-term tax liabilities (Note 6)  | 258          | 129       |
| Total long-term liabilities   | 1,079        | 1,338     |
| Total liabilities   | 3,376        | 4,754     |
| Commitments and Contingencies (Notes 7, 8 and 10)   |              |           |
| Stockholders' Equity (Notes 7 and 10)   |              |           |
| Common stock, par value \$0.01 per share; authorized<br>20,000,000<br>shares; issued and outstanding 3,686,435 shares 2009<br>and 3,669,148 shares 2008 | 37           | 37        |
| Additional paid-in capital  | 5,016        | 4,913     |
| Retained earnings   | 3,096        | 4,627     |
| Total stockholders' equity  | 8,149        | 9,577     |
| Total liabilities and stockholders' equity  | \$ 11,525    | \$ 14,331 |

See Notes to Financial Statements.

Table of Contents

Page 20

---

Winland Electronics, Inc.  
 Statements of Operations  
 Years Ended December 31, 2009 and 2008  
 (In Thousands, Except Share and Per Share Data)

|  | December 31, |             |
|--|--------------|-------------|
|  | 2009         | 2008        |
| Net sales (Note 9)   | \$ 22,547    | \$ 28,665   |
| Cost of sales  | 20,291       | 25,175      |
| Gross profit   | 2,256        | 3,490       |
| <b>Operating expenses:</b>                                   |              |             |
| General and administrative                                   | 2,064        | 2,243       |
| Sales and marketing  | 1,549        | 1,392       |
| Research and development                                     | 546          | 872         |
|  | 4,159        | 4,507       |
| Operating loss   | (1,903 )     | (1,017 )    |
| <b>Other income (expenses):</b>                              |              |             |
| Interest expense   | (99 )        | (126 )      |
| Other, net   | (10 )        | 26          |
|  | (109 )       | (100 )      |
| Loss before income taxes                                     | (2,012 )     | (1,117 )    |
| Income tax benefit (Note 6)                                  | 481          | 89          |
| Net loss   | \$ (1,531 )  | \$ (1,028 ) |
| <b>Loss per common share data:</b>                           |              |             |
| Basic and diluted  | \$ (0.42 )   | \$ (0.28 )  |
| <b>Weighted-average number of common shares outstanding:</b> |              |             |
| Basic and diluted  | 3,664,395    | 3,649,661   |

See Notes to Financial Statements.

[Table of Contents](#)

Page 21

---

Winland Electronics, Inc.  
 Statements of Changes in Stockholders' Equity  
 Years Ended December 31, 2009 and 2008  
 (In Thousands, Except Share Data)

|   | Common Stock<br>Shares | Amount | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Total     |
|---|------------------------|--------|----------------------------------|----------------------|-----------|
| Balance on December 31,<br>2007   | 3,640,741              | \$ 36  | \$ 4,691                         | \$ 5,655             | \$ 10,382 |
| Issuance of common stock in accordance with employee<br>stock<br>purchase plan (Note 7) | 8,800                  | -      | 11                               | -                    | 11        |
| Issuance of common stock in accordance with employee<br>stock<br>option plan (Note 7)   | 19,607                 | 1      | 15                               | -                    | 16        |
| Stock-based compensation<br>expense for employee stock<br>purchase plan                 | -                      | -      | 9                                | -                    | 9         |
| Stock-based compensation<br>expense for stock options                                   | -                      | -      | 187                              | -                    | 187       |
| Net loss  | -                      | -      | -                                | (1,028 )             | (1,028 )  |
| Balance on December 31,<br>2008   | 3,669,148              | \$ 37  | \$ 4,913                         | \$ 4,627             | \$ 9,577  |
| Issuance of common stock in accordance with employee<br>stock<br>purchase plan (Note 7) | 17,287                 | -      | 10                               | -                    | 10        |
| Stock-based compensation<br>expense for employee stock<br>purchase plan                 | -                      | -      | 4                                | -                    | 4         |
| Stock-based compensation<br>expense for stock options                                   | -                      | -      | 89                               | -                    | 89        |
| Net loss  | -                      | -      | -                                | (1,531 )             | (1,531 )  |
| Balance on December 31,<br>2009   | 3,686,435              | \$ 37  | \$ 5,016                         | \$ 3,096             | \$ 8,149  |

See Notes to Financial  
Statements.

[Table of Contents](#)

Winland Electronics, Inc.  
 Statements of Cash Flows  
 Years Ended December 31, 2009 and 2008  
 (In Thousands)

|   | 2009        | 2008        |
|---|-------------|-------------|
| <b>Cash Flows From Operating Activities</b>   |             |             |
| Net loss  | \$ (1,531 ) | \$ (1,028 ) |
| Adjustments to reconcile net loss to net cash used in operating activities:         |             |             |
| Depreciation and amortization   | 816         | 817         |
| Non-cash stock based compensation   | 93          | 196         |
| Decrease in allowance for doubtful accounts   | 78          | -           |
| Deferred taxes  | -           | 118         |
| Loss on disposal of equipment   | 22          | -           |
| Changes in operating assets and liabilities:  |             |             |
| Accounts receivable   | 1,000       | (465 )      |
| Refundable income taxes   | (428 )      | (206 )      |
| Inventories   | 1,298       | 371         |
| Prepaid expenses and other assets   | (25 )       | 22          |
| Accounts payable  | (1,325 )    | 654         |
| Accrued liabilities, including deferred revenue and other long-term tax liabilities | (28 )       | (553 )      |
| Net cash used in operating activities   | (30 )       | (74 )       |
| <b>Cash Flows From Investing Activities</b>   |             |             |
| Purchases of property and equipment   | (264 )      | (237 )      |
| Proceeds from sale of property and equipment  | 8           | -           |
| Net cash used in investing activities   | (256 )      | (237 )      |
| <b>Cash Flows From Financing Activities</b>   |             |             |
| Net borrowings on revolving credit agreement  | 367         | -           |
| Net principal payments on long-term borrowings, including capital lease obligations | (392 )      | (512 )      |
| Proceeds from issuance of common stock  | 10          | 27          |
| Net cash used in financing activities   | (15 )       | (485 )      |
| Net decrease in cash  | (301 )      | (796 )      |
| <b>Cash and cash equivalents</b>  |             |             |
| Beginning of year   | 356         | 1,152       |
| End of year   | \$ 55       | \$ 356      |
| <b>Supplemental Disclosures of Cash Flow Information</b>                            |             |             |
| Cash payments for interest  | \$ 104      | \$ 124      |
| Cash receipts from income taxes   | \$ 183      | \$ -        |
| <b>Supplemental Schedule of Noncash Investing and Financing Activities</b>          |             |             |

|   |    |   |    |    |
|---|----|---|----|----|
| Acquisition of property and equipment in accounts payable | \$ | - | \$ | 74 |
|---|----|---|----|----|

See Notes to Financial Statements.

Table of Contents

Page 23

---

Winland Electronics, Inc.  
Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Winland Electronics, Inc. (“Winland” or the “Company”) designs and manufactures custom electronic controls and assemblies primarily for original equipment manufacturer (“OEM”) customers, providing services from early concept studies through complete product realization. The Company operates in two reportable segments, Electronic Manufacturing Services (EMS) and Proprietary Products (Proprietary) as defined by The Financial Accounting Standards Board “FASB” Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (“ASC”) Topic 280 Segment Reporting.

A summary of Winland’s significant accounting policies follow:

Use of estimates: The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowances for obsolete inventories, rework and warranties, valuation of long-lived assets and doubtful accounts. Winland cannot assure that actual results will not differ from those estimates.

Revenue Recognition: In most cases, revenue is recognized from the sale of products and out of warranty repairs when the product is delivered to a common carrier for shipment and title transfers.

A portion of the Company’s business involves shipping product to a primary customer’s location where it is held in a separate warehouse. Revenue is recognized when that customer notifies Winland that the inventory has been removed from the warehouse and title to the product is transferred.

Revenue recognition occurs for engineering design as services are completed. Winland has an agreement with one particular customer to amortize the cost of engineering design services as part of the piece part cost of the manufactured unit. For the year ended December 31, 2008, the customer paid Winland approximately \$31,000 for these services. These payments were classified as unearned revenue and recorded in Other Accrued Liabilities on the balance sheet. There was no unearned revenue as of December 31, 2009.

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. For all sales, Winland either has a binding purchase order or customer accepted and signed engineering quote as evidence of the arrangement. Winland does not generally accept returns but does provide a limited warranty as outlined below under Allowance for Rework and Warranty Costs. Sales and use taxes are reported on a net basis, excluding them from sales and cost of sales.

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 deposit accounts which, at times, may exceed federally insured limits. Winland has not experienced any losses in such accounts.

Allowance for Doubtful Accounts: The Company generally requires no collateral from its customer with respect to trade accounts receivable. Invoices are generally due 30 days after presentation. Accounts receivable over 30 days are considered past due. Winland evaluates its allowance for uncollectible accounts on a quarterly basis and reviews any significant customers with delinquent balances to determine future collectability. Winland bases its determinations on legal issues, past history, current financial and credit agency reports, and experience. Winland

reserves for accounts deemed to be uncollectible in the quarter in which the determination is made. Management believes these values are estimates and may differ from actual results. Winland believes that, based on past history and credit policies, the net accounts receivable are of good quality. Bad debt expense for the year ended December 31, 2009 was \$51,000 offset by collection of \$60,000 for a previously written off bad debt. Bad debt expense for the year ended December 31, 2008 was \$109,000. The Company writes off accounts receivable when they are deemed uncollectible and record recoveries of trade receivables previously written off when collected. The Allowance for Doubtful Accounts was \$49,000 and \$127,000 at December 31, 2009 and 2008, respectively.

Table of Contents

Page 24

---

Winland Electronics, Inc.  
Notes to Financial Statements

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 market 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 inventories was \$562,000 and \$569,000 as of December 31, 2009 and 2008, respectively.

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

|                                | Years   |
|--------------------------------|---------|
| Land improvements              | 17 – 20 |
| Building                       | 39 – 40 |
| Machinery and equipment        | 5 – 7   |
| Data processing equipment      | 3 – 7   |
| Office furniture and equipment | 3 – 7   |

**Long-lived assets:** Net long-lived assets amounted to \$4.3 million at December 31, 2009. 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. In particular, if the Company no longer believes it will achieve its long-term projected sales or operating expenses, the Company may conclude in connection with any future impairment tests that the estimated fair value of our long-lived assets are less than the book value and recognize an impairment charge. Such impairment would adversely affect earnings. There were no impairment losses recognized in 2009 or 2008.

**Allowance for Rework and Warranty Costs:** Winland provides a limited warranty to its OEM customers who require it to repair or replace product that is defective, due to Company workmanship issues, at no cost to the customer. In addition, Winland provides a limited warranty for its proprietary 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 specific customer 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 \$45,000 and \$80,000 as of December 31, 2009 and 2008, respectively. The product warranty liability reflects management's best estimate of probable liability under Winland's product warranties and may differ from actual results.

Changes in Winland's warranty liability, which is included in other accrued liabilities on the balance sheets, are approximately as follows:

Years Ended December 31



Edgar Filing: WINLAND ELECTRONICS INC - Form 10-K

|                            | 2009       | 2008       |
|----------------------------|------------|------------|
| Balance, beginning         | \$ 80,000  | \$ 160,000 |
| Accruals for products sold | 106,000    | 209,000    |
| Expenditures incurred      | (102,000 ) | (272,000 ) |
| Change in estimate         | (39,000 )  | (17,000 )  |
| Balance, ending            | \$ 45,000  | \$ 80,000  |

Table of Contents

Page 25

---

Winland Electronics, Inc.  
Notes to Financial Statements

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

**Income taxes:** Income taxes are accounted for in accordance with FASB 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 carry forwards. 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. 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. Per 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 financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

**Fair value of financial instruments:** Management estimates that the carrying value of long-term debt approximates fair value, estimated based on interest rates for the same or similar debt offered to Winland having the same or similar remaining maturities and collateral requirements. The carrying values of cash, accounts receivable, accounts payable and revolving line-of-credit approximate their fair value due to the short-term nature of these instruments.

**Loss per common share:** Basic loss per common share is computed by dividing the net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per common share is computed by dividing the net 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 7). For years ended December 31, 2009 and 2008, the diluted loss per share was the same as basic loss per share since the effects of options and warrants would have been anti-dilutive. The diluted share calculation excluded 402,500 and 480 weighted average shares for the years ended December 31, 2009 and 2008, respectively, as inclusion of these shares would have been anti-dilutive.

**Employee stock based compensation plans:** At December 31, 2009, Winland had stock-based compensation plans, which are described more fully in Note 7. Winland accounts for these plans under FASB ASC Topic 718-50, Employee Share Purchase Plans.

**Research and development expense:** Winland expenses research and development costs as incurred. Research and development expenses of \$546,000 and \$872,000 were charged to operations during the years ended December 31, 2009 and 2008, respectively.

**Advertising expense:** Advertising is expensed as incurred and was \$52,000 and \$69,000 for the years ended December 31, 2009 and 2008, respectively.

**Subsequent events:** The Company evaluates events occurring after the date of the financial statements for events requiring recording or disclosure in the financial statements.

**Recently issued accounting pronouncements:** Effective September 15, 2009, Winland adopted FASB SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

("ASC"). The FASB ASC is effective for interim and annual periods ending after September 15, 2009. All accounting literature not included in the Codification will be non-authoritative. The adoption of this FASB ASC did not impact the Company's financial statements or its results of operations.

Effective January 1, 2009, Winland adopted FASB ASC 810, Consolidation. FASB ASC 810 requires all entities to report non-controlling interests as equity in the consolidated financial statements. The adoption of FASB ASC 810 did not impact the Company's financial statements or results of operations.

Effective January 1, 2009, Winland adopted FASB ASC 820, Fair Value Measurements and Disclosures. FASB ASC 820 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value and expands disclosures about fair value measurements. The adoption of FASB ASC 820 did not impact the Company's financial statements.

Table of Contents

Page 26

---

Winland Electronics, Inc.  
Notes to Financial Statements

Note 2. Segment Reporting

Effective January 1, 2008, the Company began reporting results of operations by two unique reportable segments, Electronic Manufacturing Services (EMS) and Proprietary Products (Proprietary). The Company evaluates the performance of operating segments and allocates resources based on profit and loss from operations.

The Company's EMS segment consists of the design and manufacturing of printed circuit board assemblies and higher level products sold mainly to Original Equipment Manufacturer (OEM) customers. Winland offers complete solutions to OEM customer needs by providing value-added services that complement its contract manufacturing capabilities. This is part of a "concept to product realization" strategy, the elements of which may include product concept studies, product design, printed circuit board design, design for manufacturing, higher level assembly and box build, repair service, and legacy support. These services differentiate Winland from many competitors and are intended to increase customer satisfaction, confidence, and loyalty. Winland views EMS customers as strategic partners and works to provide these partners with high level customer care and technical services.

The Company's Proprietary segment represents an established family of environmental security products that can monitor critical environments including simple and sophisticated microprocessor and mechanically controlled sensors and alarms. These products monitor and detect critical environmental changes, such as changes in temperature or humidity, water leakage and power failures.

The Company's remaining activities are included in "Other". These are unallocated corporate level expenses, which include costs related to the administrative functions performed in a centralized manner and not attributable to particular segments (e.g., executive compensation expense, accounting, human resources and information technology support), are reported in the reconciliation of the segment totals to consolidated totals as "Other" items.

Segment assets or other balance sheet information are not presented to the Company's chief operating decision maker. Accordingly, the Company has not presented information relating to segment assets. The following table presents net sales and operating income (loss) by reportable segment.

WINLAND ELECTRONICS, INC.  
SEGMENT REPORTING

| (\$ in thousands)                                | EMS       | Proprietary | Other    | Total     |
|--|-----------|-------------|----------|-----------|
| Three months ended December 31, 2009 (unaudited) |           |             |          |           |
| Net sales  | \$ 3,719  | \$ 819      | \$ -     | \$ 4,538  |
| Gross Margin                                     | (37 )     | 305         | -        | 268       |
| Operating income (loss)                          | (330 )    | 151         | (427 )   | (606 )    |
| Three months ended December 31, 2008 (unaudited) |           |             |          |           |
| Net sales  | \$ 7,102  | \$ 661      | \$ -     | \$ 7,763  |
| Gross Margin                                     | 731       | 274         | -        | 1,005     |
| Operating income (loss)                          | 476       | 60          | (474 )   | 62        |
| Twelve months ended December 31, 2009            |           |             |          |           |
| Net sales  | \$ 19,356 | \$ 3,191    | \$ -     | \$ 22,547 |
| Gross Margin                                     | 422       | 1,328       | -        | 1,750     |
| Operating income (loss)                          | (103 )    | 264         | (2,064 ) | (1,903 )  |

Twelve months ended December 31, 2008

|                         |    |        |    |       |    |          |    |          |
|-------------------------|----|--------|----|-------|----|----------|----|----------|
| Net sales               | \$ | 25,292 | \$ | 3,373 | \$ | -        | \$ | 28,665   |
| Gross Margin            |    | 1,834  |    | 1,374 |    | -        |    | 3,208    |
| Operating income (loss) |    | 1,099  |    | 127   |    | (2,243 ) |    | (1,017 ) |

Table of Contents

Page 27

---

Winland Electronics, Inc.  
Notes to Financial Statements

Note 3. Inventories

The components of inventories at December 31, 2009 and 2008 were as follows:

|                  | December 31  |              |
|------------------|--------------|--------------|
|                  | 2009         | 2008         |
| Raw materials    | \$ 2,202,000 | \$ 2,923,000 |
| Work in progress | 275,000      | 423,000      |
| Finished goods   | 562,000      | 991,000      |
| Total            | \$ 3,039,000 | \$ 4,337,000 |

Note 4. Financing Arrangement and Long-Term Debt

Winland has a \$2,500,000 revolving line of credit agreement which expires on June 28, 2010. Advances are due on demand, secured by substantially all Company assets, and are subject to a defined borrowing base equal to 80% of qualified accounts receivable. Interest on advances accrues at the minimum of 5.0% or the monthly LIBOR rate plus three and one half percent (3.5%). As of December 31, 2009, interest was accrued at the minimum of 5.0%. As of December 31, 2009, \$367,000 was outstanding on the revolving line of credit agreement with no balances outstanding at December 31, 2008. At December 31, 2009, \$1,650,000 was available for borrowing under the terms of this agreement. See also (a) following.

The following is a summary of long-term debt:

|   | December 31  |              |
|---|--------------|--------------|
|   | 2009         | 2008         |
| 6.44% mortgage note payable, due in monthly installments of \$11,373, including interest, to October 1, 2014, secured by property (a),(b)                         | \$ 552,000   | \$ 649,000   |
| 6.50% note payable, paid in full in 2009  | -            | 39,000       |
| Capital lease obligations bearing interest ranging from 6.25% to 8.01%, due in monthly installments of \$1,138 to \$6,426, to December 2012, secured by equipment | 527,000      | 783,000      |
|   | \$ 1,079,000 | \$ 1,471,000 |
| Less current maturities   | 380,000      | 392,000      |
| Total long-term debt  | \$ 699,000   | \$ 1,079,000 |

(a) These agreements have certain financial and non-financial covenants, which, among others, require the Company to maintain a minimum tangible net worth, a maximum leverage ratio, a maximum debt to tangible net worth, a minimum cash flow coverage ratio, imposes limits on capital expenditures and disallows the declaration or payment of dividends.

(b) As of December 31, 2009 and 2008, Winland was in violation of the minimum cash flow coverage covenant for this agreement. The issuing financial institution has granted a waiver of this covenant as of December 31, 2009 and 2008.

Table of Contents

Page 28

---

Winland Electronics, Inc.  
Notes to Financial Statements

Note 4. Financing Arrangement and Long-Term Debt (Continued)

Approximate maturities of long-term debt and future minimum lease payments on capital leases for years subsequent to December 31, 2009, are as follows:

|   | Long-term<br>Debt | Capital<br>leases |
|---|-------------------|-------------------|
| 2010  | \$ 104,000        | \$ 307,000        |
| 2011  | 111,000           | 231,000           |
| 2012  | 118,000           | 30,000            |
| 2013  | 126,000           | -                 |
| 2014  | 93,000            | -                 |
| Thereafter                                  | -                 | -                 |
| Total                                       | \$ 552,000        | \$ 568,000        |
| Less amount representing interest           |                   | 41,000            |
| Present value of net minimum lease payments |                   | 527,000           |
| Less current portion                        |                   | 276,000           |
| Long-term portion                           |                   | \$ 251,000        |

The cost and accumulated depreciation of assets acquired under capital leases at December 31, 2009 and 2008 were as follows:

|  | 2009         | 2008         |
|--|--------------|--------------|
| Cost                                     | \$ 1,711,000 | \$ 1,714,000 |
| Accumulated amortization                 | 1,074,000    | 924,000      |
| Net leased property under capital leases | \$ 637,000   | \$ 790,000   |

Amortization of capital leases is included in depreciation expense.

Note 5. Deferred Revenue

During 1994, Winland and the city of Mankato entered into a tax increment financing agreement for the construction of its operating facility. In connection with this agreement, the city donated land improvements to Winland with a fair value of \$270,009. The fair value of land improvements donated was accounted for as deferred revenue and is being amortized over 39 years, which is the life of the building.

Note 6. Income Taxes

Components of income tax benefit are as follows:

|                  | Year Ended December 31 |            |
|------------------|------------------------|------------|
|                  | 2009                   | 2008       |
| Current benefit  | \$ 481,000             | \$ 207,000 |
| Deferred expense | -                      | (118,000 ) |
|                  | \$ 481,000             | \$ 89,000  |



Table of Contents

Page 29

---

Winland Electronics, Inc.  
Notes to Financial Statements

Note 6. Income Taxes (Continued)

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

|  | December 31 |         |
|--|-------------|---------|
|  | 2009        | 2008    |
| Statutory U.S. income tax rate                 | (34 ) %     | (34 ) % |
| State benefit (tax), net of federal tax effect | (4 )        | (4 )    |
| Research and Development Credits               | 6           | -       |
| Change in Valuation Allowance                  | 4           | 24      |
| Other, including permanent differences         | 4           | 6       |
| Effective income tax benefit rate              | (24 ) %     | (8 ) %  |

Deferred tax assets (liabilities) consist of the following components as of December 31, 2009 and 2008:

|                                 | December 31 |            |
|---------------------------------|-------------|------------|
|                                 | 2009        | 2008       |
| Deferred tax assets:            |             |            |
| Inventory                       | \$ 269,000  | \$ 275,000 |
| Allowance for doubtful accounts | 19,000      | 49,000     |
| Non-qualified stock options     | 73,000      | 69,000     |
| Accrued expenses                | 59,000      | 105,000    |
| Research Credit Carryover       | 137,000     | 116,000    |
| Net operating loss carryforward | 132,000     | 57,000     |
| Other                           | 20,000      | 16,000     |
| Valuation Allowance             | (377,000 )  | (271,000 ) |
|                                 | 332,000     | 416,000    |
| Deferred tax liabilities:       |             |            |
| Property and equipment          | (288,000 )  | (367,000 ) |
| Prepaid expenses                | (44,000 )   | (49,000 )  |
|                                 | (332,000 )  | (416,000 ) |
| Net deferred tax assets         | \$ -        | \$ -       |

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. Winland 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. For the years ended December 31, 2009 and 2008, Winland recorded tax valuation allowances of \$106,000 and \$271,000, respectively, against 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. As of December 31, 2009 and 2008, the Company calculated its estimated annualized effective tax benefit rate at 24% and 8%, respectively. The Company recognized an income tax benefit of \$481,000 (net of the valuation allowance and an adjustment to unrecognized tax benefits of \$129,000) based on its \$2,012,000 pre-tax loss for year ended 2009 compared to an income tax benefit of \$89,000 (net of the valuation allowance) based on its \$1,117,000 pre-tax loss for year ended 2008.

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 financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Table of Contents

Page 30

---

Winland Electronics, Inc.  
Notes to Financial Statements

Note 6. Income Taxes (Continued)

The Company files income tax returns in the U.S. federal and state jurisdictions and is currently under examination by the Internal Revenue Service (IRS) for its 2004 through 2007 tax years and the State of Minnesota for its 2003 through 2006 tax years. The Company recognized a \$301,000 reduction in income tax expense as of December 31, 2007 for credits filed with the Internal Revenue Service and the State of Minnesota for tax years 2003 through 2007, net of \$129,000 reserve for FASB ASC 740, Income Taxes. An additional \$129,000 of unrecognized tax benefits was recorded for the year ended December 31, 2009 for changes in estimate on positions taken in these open years. The years 2004 through 2009 remain open for examination by other state agencies. A reconciliation of the unrecognized tax benefit is as follows:

|  | 2009       | 2008       |
|--|------------|------------|
| Beginning Balance                                    | \$ 129,000 | \$ 129,000 |
| Additions for tax positions taken for open tax years | 129,000    | -          |
| Ending Balance                                       | \$258,000  | \$ 129,000 |

The Company recognizes interest accrued on unrecognized tax benefits 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 December 31, 2009 and 2008, the Company recognized no interest or penalties related to uncertain tax positions due to their insignificance to its financial position and results of operations.

At December 31, 2009, the Company had no net operating loss carryforwards for federal purposes and \$2,071,000 for state income tax purposes that are available to offset future taxable income and begin to expire in the year 2022. At December 31, 2009, the Company had federal and Minnesota research and development tax credit carryforwards of \$135,000 and \$39,000, respectively, which begin to expire in the years 2026 and 2022, respectively.

Given the fact that the Company is currently under audit by the IRS and the State of Minnesota, it is possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next year. An estimate of the range of such gross changes cannot be made at this time. The Company expects that any changes would have a significant impact on its effective tax rate and expected cash receipts for income taxes refundable within the next year.

Note 7. Warrants and Stock-Based Compensation Plans

**Warrants:** The Company has warrants outstanding to purchase 12,500 shares of common stock at a weighted average exercise price of \$3.52 per share. These warrants were granted prior to 2007 and expire at various dates commencing February 1, 2009.

**Employee stock purchase plan:** The 1997 Employee Stock Purchase Plan (ESPP) has provided Winland employees the opportunity to purchase common stock through payroll deductions. The purchase price is set at the lower of 85% of the fair market value of common stock at the beginning of the participation period or 85% of the fair market value on the purchase date. The participation periods have a 6-month duration beginning in January and July of each year. A total of 300,000 shares of common stock were authorized for issuance under the ESPP of which 127,085 have been issued. Winland issued 17,287 and 8,800 shares for the years ended December 31, 2009 and 2008, respectively, incurring \$4,000 and \$9,000 of compensation expense under this plan for those years.

**Stock option plans:** As of December 31, 2008, Winland had one equity-based compensation plan, the 2008 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 2005 Equity Incentive Plan. The plans are as follows:

2008 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 amended by the shareholders in May 2009, up to 500,000 shares are authorized for issuance under the plan. Awards issued under the plan as of December 31, 2009 include 137,000 shares of incentive stock options and 44,000 nonqualified stock options of which 181,000 are outstanding and 69,000 of which are vested at December 31, 2009. 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 10 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.

Table of Contents

Page 31

---

Winland Electronics, Inc.  
Notes to Financial Statements

Note 7. Warrants and Stock-Based Compensation Plans (Continued)

2005 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 2008. As of December 31, 2009, there were 209,000 options outstanding under this plan of which 114,800 are vested.

Winland uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards with the following weighted-average assumptions for the indicated periods.

|                         | December 31 |   |      |   |
|-------------------------|-------------|---|------|---|
|                         | 2009        |   | 2008 |   |
| Expected life, in years | 5-10        |   | 5-10 |   |
| Expected volatility     | 81.9        | % | 69.5 | % |
| Risk-free interest rate | 2.6         | % | 3.3  | % |
| Dividend yield          | 0.0         | % | 0.0  | % |

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.

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 options 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, 2009 and 2008, there were no such stock option exercises and disqualifying stock dispositions.

Net cash proceeds from the exercise of stock options were \$16,000 for the year ended December 31, 2008 with no options being exercised in 2009.

The following table represents stock option activity for the years ended December 31, 2009 and 2008:

|  | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted Average<br>Remaining Contract Life | Aggregate<br>Intrinsic<br>Value |
|--|---------------------|--|---|---------------------------------|
| Outstanding options at January 1, 2008   | 371,100             | \$3.10                                   |   |                                 |
| Granted                                  | 233,500             | 1.72                                     |   |                                 |
| Exercised                                | (8,800 )            | 1.27                                     |   |                                 |
| Forfeited                                | (127,000 )          | 3.13                                     |   |                                 |
| Outstanding options at December 31, 2008 | 468,800             | \$2.44                                   | 5.30 Yrs                                    | \$2,000                         |
| Exercisable at December 31, 2008         | 154,000             | \$3.01                                   | 4.89 Yrs                                    | \$2,000                         |
| Outstanding options at January 1, 2009   | 468,800             | \$2.44                                   |   |                                 |
| Granted                                  | 34,000              | 0.65                                     |   |                                 |

Edgar Filing: WINLAND ELECTRONICS INC - Form 10-K

|  |            |        |          |         |
|--|------------|--------|----------|---------|
| Exercised                                | -          | -      |          |         |
| Forfeited                                | (112,800 ) | 2.66   |          |         |
| Outstanding options at December 31, 2009 | 390,000    | \$2.22 | 5.30 Yrs | \$8,500 |
| Exercisable at December 31, 2009         | 183,800    | \$2.51 | 5.74 Yrs | \$4,000 |

[Table of Contents](#)

Page 32

---

Winland Electronics, Inc.  
Notes to Financial Statements

Note 7. Warrants and Stock-Based Compensation Plans (Continued)

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.

The total intrinsic value of options exercised during the year ended December 31, 2008 was \$5,000. No options were exercised during the year ended December 31, 2009.

The weighted average fair value of stock options granted with an exercise price equal to the deemed stock price on the date of grant during 2009 and 2008 was \$0.65 and \$1.13, respectively.

At December 31, 2009, there was \$102,000 of unrecognized compensation cost, adjusted for estimated forfeitures, related to share-based payments which is expected to be recognized over a weighted-average period of 2.1 years and will be adjusted for any future changes in estimated forfeitures.

Note 8. Employee Benefit Plans

**Pension plan:** Winland has a qualified defined contribution 401(k) profit-sharing plan for its employees who meet certain age and service requirements. Employees are allowed to make contributions of up to 15% of their eligible compensation. The plan also provides for a Company-sponsored as determined by the Board of Directors. Winland contributed approximately \$31,000 and \$103,000 to the plan for the years ended December 31, 2009 and 2008, respectively. In addition, Winland may make additional discretionary contributions to the plan to the extent authorized by the Board of Directors. There were no discretionary contributions to the plan for the years ended December 31, 2009 and 2008.

**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. The employee may also make contributions equal to one-half the deductible limit elected. Winland makes contributions to the plan on a quarterly basis on the first day of each quarter. The contributions cannot be refunded to Winland if the employee's employment with Winland is terminated voluntarily or involuntarily. Winland contributed approximately \$130,000 and \$175,000 to the plan for the years ended December 31, 2009 and 2008, respectively.

Note 9. Major Customers

Winland has customers which accounted for more than 10 percent of net sales for the years ended December 31, 2009 and 2008, as follows:

|  | 2009 |   | 2008 |   |
|--|------|---|------|---|
| Sales percentage:                              |      |   |      |   |
| Customer A                                     | 39   | % | 33   | % |
| Customer B                                     | 12   | % | 11   | % |
| Customer C                                     | 11   | % | 4    | % |
| Customer D                                     | 6    | % | 16   | % |
| Accounts receivable percentage at December 31: |      |   |      |   |
| Customer A                                     | 33   | % | 40   | % |



Edgar Filing: WINLAND ELECTRONICS INC - Form 10-K

|            |    |   |    |   |
|------------|----|---|----|---|
| Customer B | 21 | % | 12 | % |
| Customer C | 5  | % | 2  | % |
| Customer D | 2  | % | 9  | % |

Customer D allowed its contract with Winland to expire in March 2009. Winland worked with Customer D to transition existing raw and finished inventories to its new supplier during 2009. As of December 31, 2009, \$79,000 of raw inventory was on hand related to Customer D which its new supplier issued a purchase order for to ship in 2010.

Table of Contents

Page 33

---

Winland Electronics, Inc.  
Notes to Financial Statements

Note 10. Shareholder Rights Plan

On December 9, 2003, Winland's Board of Directors adopted a Shareholder Rights Plan. Under the plan, rights were constructively distributed as a dividend at the rate of one right for each share of common stock of Winland held by the shareholders of record as of the close of business on December 31, 2003. Each right entitles its holder to purchase one-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of \$36. The rights will only be exercisable if a person or group acquires, has the right to acquire, or has commenced a tender offer for 15 percent or more of Winland's outstanding common stock. The rights are nonvoting, pay no dividends, expire on December 9, 2013, and may be redeemed by Winland for \$0.001 per right at any time before the 15th day (subject to adjustment) after a 15 percent position is acquired. The rights have no effect on earnings per share until they become exercisable.

After the rights are exercisable, if Winland is acquired in a merger or other business combination, or if 50% or more of Winland's assets are sold, each right will entitle its holder (other than the acquiring person or group) to purchase, at the then current exercise price, common stock of the acquiring entity having a value of twice the exercise price. In connection with the adoption of the Shareholder Rights Plan, the Board of Directors has designated 60,000 shares of previously undesignated stock as Series A Junior Participating Preferred Stock. The shares have a par value of \$0.01 per share and a liquidation value equal to the greater of \$100 or 100 times the aggregate amount to be distributed per share to holders of common stock. Shares of Series A Junior Participating Preferred Stock are not convertible into shares of Winland's common stock. Each share of Series A Junior Participating Preferred Stock will be entitled to a minimum preferential quarterly dividend payment equal to the greater of \$1 per share or an aggregate dividend of 100 times the dividend declared per share of common stock. Each share of Series A Junior Participating Preferred Stock has 100 votes. In the event of any merger, consolidation or other transaction in which common stock is exchanged; each share of Series A Junior Participating Preferred Stock will be entitled to receive 100 times the amount received per share of common stock. There are no shares of Series A Junior Participating Preferred Stock outstanding.

Table of Contents

ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
9. FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Winland's principal executive and financial officers evaluated its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2009. Based upon that evaluation, they concluded as of December 31, 2009, that Winland's disclosure controls and procedures were effective to ensure that information it is required to disclose in the reports that Winland files under the Exchange Act is recorded, processed, summarized and reported within time periods specified in Securities and Exchange Commission rules and forms. In addition, principal executive and financial officers concluded as of December 31, 2009 that its disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports that Winland files or submits under the Exchange Act is accumulated and communicated to its management, including Winland's chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Winland's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Winland's internal control system over financial reporting is designed by, or under the supervision of, its chief executive officer and chief financial officer, and is effected by its board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Winland's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the assets of the company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that transactions are made only in accordance with the authorization of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized transactions that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

Winland's management assessed the effectiveness of Winland's internal control over financial reporting as of December 31, 2009. In making this assessment, Winland's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on management's assessment and those criteria, Winland's management concluded that its internal control over financial

reporting was effective as of December 31, 2009.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control.

None.

ITEM 9B. OTHER INFORMATION

None.

[Table of Contents](#)

Page 35

---

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated by reference to Winland's definitive proxy statement for its 2010 Annual Meeting of Shareholders under the captions "Executive Compensation" and "Corporate Governance – Compensation to Non-Employee Directors."

## ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to Winland's definitive proxy statement for its 2010 Annual Meeting of Shareholders under the captions "Executive Compensation" and "Corporate Governance – Compensation to Non-Employee Directors."

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 relating to security ownership of certain holders is incorporated by reference to Winland's definitive proxy statement for its 2010 Annual Meeting of Shareholders under the caption "Principal Shareholders and Management Shareholdings."

The following table provides information concerning Winland's equity compensation plans as of December 31, 2009.

|  | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|---|---|---|
| Equity compensation plans approved by security holders         | 390,000   | \$ 2.22   | 491,915 (1)   |
| Equity compensation plans not approved by security holders (2) | 12,500  | \$ 3.52   | 0   |
| <b>TOTALS</b>  | <b>402,500</b>  | <b>\$ 2.26</b>  | <b>491,915</b>  |

(1) Includes 172,915 shares available for issuance under Winland's 1997 Employee Stock Purchase Plan.

(2) The plans consist of three warrant agreements to purchase shares of Winland's Common Stock issued in 2006 as partial consideration for consulting services to the following: (i) Board Assets, Inc., a board evaluation and consulting firm – warrant to purchase 5,000 shares of common stock, which warrant vests upon performance of certain services and expires on February 16, 2016 (2,500 shares vested on July 17, 2006, and the remaining shares did not vest because the consulting arrangement has been terminated); and (ii) each of two principals of Genoa Business Advisors, LLC, a business consulting firm – warrant to purchase 10,000 shares, which vest in 5,000-share increments upon

performance of certain services and expire on September 6, 2011 (10,000 shares vested on January 19, 2007, and the remaining shares did not vest because the consulting arrangement has been terminated).

Table of Contents

Page 36

---

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to Winland's definitive proxy statement for its 2010 Annual Meeting of Shareholders under the captions "Corporate Governance" and "Certain Transactions."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference to Winland's definitive proxy statement for its 2010 Annual Meeting of Shareholders under the caption "Independent Registered Public Accounting Firm."

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following exhibits are included in this report: See "Exhibit Index to Form 10-K" following the signature page of this Form 10-K.

[Table of Contents](#)

Page 37

---

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Winland has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Winland Electronics Inc.

Dated: March 19, 2010

/s/ Thomas J. de Petra  
Thomas J. de Petra  
President and Chief Executive Officer

Table of Contents

Page 38

---



Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of Winland, in the capacities, and on the dates, indicated.

(Power of Attorney)

Each person whose signature appears below constitutes and appoints Thomas J. de Petra and Glenn A. Kermes as his true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

| Signature and Title  | Date           |
|--|----------------|
| /s/ Thomas J. de Petra<br>Thomas J. de Petra<br>President and Chief Executive Officer<br>(Principal Executive Officer)   | March 19, 2010 |
| /s/ Glenn A. Kermes<br>Glenn A. Kermes<br>Chief Financial Officer and Executive Vice President<br>(Principal Financial Officer and Principal Accounting Officer) | March 19, 2010 |
| /s/ Thomas J. Goodmanson<br>Thomas J. Goodmanson<br>Director   | March 19, 2010 |
| /s/ Thomas J. Brady<br>Thomas J. Brady<br>Director   | March 19, 2010 |
| /s/ Richard T. Speckmann<br>Richard T. Speckmann<br>Director   | March 19, 2010 |
| /s/ Lorin E. Krueger<br>Lorin E. Krueger<br>Director   | March 19, 2010 |

[Table of Contents](#)



SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

EXHIBIT INDEX TO FORM 10-K

For the Fiscal Year Ended December 31, 2009

Commission File No.: 1-15637

---

WINLAND ELECTRONICS, INC.

---

Exhibit Item

Number

- 3.1 Restated Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 to Form 10-KSB for the fiscal year ended December 31, 1994)
- 3.2 Restated Bylaws (Incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K dated March 5, 2001)
- 3.3 Certificate of Designation of Series A Junior Participating Preferred Stock – See Exhibit 4.2
- 4.1 Specimen of Common Stock certificate (Incorporated by reference to Exhibit 4 to Registration Statement on Form S-4, SEC File No. 33-31246)
- 4.2 Rights Agreement dated December 9, 2003 between the Company and Wells Fargo Bank Minnesota, N.A., which includes the form of Certificate of Designation as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C (Incorporated by reference to Exhibit 4.1 to the Form 8-A Registration Statement No. 001-15637 filed on December 10, 2003)
- 4.3 First Amendment to Rights Agreement dated December 1, 2004 by and among the Company, Wells Fargo Bank, N.A. and Registrar and Transfer Company (Incorporated by reference to Exhibit 4.2 to Form 8-A/A-1 Registration Statement No. 001-15637 filed December 3, 2004)
- 10.1 Winland Electronics, Inc. 1997 Employee Stock Purchase Plan as amended June 17, 2003 (Incorporated by reference to Exhibit 10.1 to Form 10-QSB for the quarter ended June 30, 2003)\*\*
- 10.2 Winland Electronics, Inc. 1997 Stock Option Plan (Incorporated by reference to Exhibit 10.2 to Form 10-QSB for the quarter ended June 30, 1997)\*\*
- 10.3 Form of Incentive Stock Option Plan under 1997 Stock Option Plan (Incorporated by reference to Exhibit 10.3 to Form 10-QSB for the quarter ended June 30, 1997)\*\*

10.4 Form of Nonqualified Stock Option Plan under 1997 Stock Option Plan  
(Incorporated by reference to Exhibit 10.4 to Form 10-QSB for the quarter ended  
June 30, 1997)\*\*

Table of Contents

Page 40

---

- 10.5 Credit and Security Agreement between the Company and M&I Marshall & Ilsley Bank (M&I), dated June 30, 2003 and Note dated June 30, 2003 in the principal amount of \$2,500,000 in favor of M&I (Incorporated by reference to Exhibit 10.1 to Form 10-QSB for quarter ended June 30, 2003)
- 10.6 Term Note in the principal amount of \$1,000,000 dated September 30, 2004 in favor of U.S. Bank, N.A. (Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K dated September 30, 2004 and filed on October 6, 2004)
- 10.7 Term Loan Agreement dated September 30, 2004 between the Company and U.S. Bank, N.A. (Incorporated by reference to Exhibit 99.2 to Current Report on Form 8-K dated September 30, 2004 and filed on October 6, 2004)
- 10.8 Addendum to Term Loan Agreement and Note dated September 30, 2004 between the Company and U.S. Bank, N.A. (Incorporated by reference to Exhibit 99.3 to Current Report on Form 8-K dated September 30, 2004 and filed on October 6, 2004)
- 10.9 Mortgage, Security Agreement and Assignment of Rents dated September 30, 2004 bet in favor of U.S. Bank, N.A. (Incorporated by reference to Exhibit 99.4 to Current Report on Form 8-K dated September 30, 2004 and filed on October 6, 2004)
- 10.10 2005 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated May 10, 2005 and filed on May 13, 2005)
- 10.11 Form of Incentive Stock Option Agreement under the 2005 Equity Incentive Plan (Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K dated May 10, 2005 and filed on May 13, 2005)
- 10.12 Form of Nonqualified Stock Option Agreement under the 2005 Equity Incentive Plan (Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K dated May 10, 2005 and filed on May 13, 2005)
- 10.13 Form of Restricted Stock Agreement under the 2005 Equity Incentive Plan (Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K dated May 10, 2005 and filed on May 13, 2005)
- 10.14 Amendment No. 1 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated April 15, 2004 and Term Note dated April 15, 2004 (Incorporated by reference to Exhibit 10.1 to Form 10-QSB for quarter ended June 30, 2005)
- 10.15 Amendment No. 2 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 25, 2004 (Incorporated by reference to Exhibit 10.2 to Form 10-QSB for quarter ended June 30, 2005)
- 10.16 Amendment No. 3 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated August 3, 2004 (Incorporated by reference to Exhibit 10.3 to Form 10-QSB for quarter ended June 30, 2005)

- 10.17 Amendment No. 4 to Credit Agreement between the Company and M&I Marshall & Ilesley Bank dated February 23, 2005 (Incorporated by reference to Exhibit 10.4 to Form 10-QSB for quarter ended June 30, 2005)

Table of Contents

Page 41

---

Edgar Filing: WINLAND ELECTRONICS INC - Form 10-K

- 10.18 Amendment No. 5 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated April 4, 2005 (Incorporated by reference to Exhibit 10.5 to Form 10-QSB for quarter ended June 30, 2005)
- 10.19 Amendment No.6 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 23, 2005 (Incorporated by reference to Exhibit 10.6 to Form 10-QSB for quarter ended June 30, 2005)
- 10.20 Amendment No.7 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 23, 2005 (Incorporated by reference to Exhibit 10.2 to Form 10-QSB for quarter ended June 30, 2006)
- 10.21 Amendment No.8 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 23, 2005 (Incorporated by reference to Exhibit 10.3 to Form 10-QSB for quarter ended June 30, 2006)
- 10.22 Master Lease Agreement between the Company and M&I Marshall & Ilsley Bank dated June 28, 2006 (Incorporated by reference to Exhibit 10.1 to Form 10-QSB for quarter ended June 30, 2006)
- 10.23 Compensation Arrangements for Directors as of January 1, 2006 (Incorporated by reference to Exhibit 10.28 to Form 10-KSB for year ended December 31, 2005)\*\*
- 10.24 Employment Agreement dated January 23, 2007 between the Company and Lorin E. Krueger (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated January 23, 2007) \*\*
- 10.25 Employment Agreement dated January 23, 2007 between the Company and Glenn A. Kermes (Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K dated January 23, 2007) \*\*
- 10.26 Employment Agreement dated February 5, 2007 between the Company and Terry E. Treanor (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 5, 2007) \*\*
- 10.27 Employment Agreement dated February 14, 2007 between the Company and Dale A. Nordquist (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 14, 2007) \*\*
- 10.28 Employment Agreement dated February 3, 2007 between the Company and Gregory W. Burneske (Incorporated by reference to Exhibit 10.29 to Form 10-KSB for year ended December 31, 2006) \*\*
- 10.29 Amendment No.9 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 29, 2007 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 29, 2007)
- 10.30

Edgar Filing: WINLAND ELECTRONICS INC - Form 10-K

Amendment No.10 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated September 30, 2007 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated October 22, 2007)

- 10.31 Separation Agreement between the Company and Lorin E. Krueger dated October 30, 2007 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated October 30, 2007)\*\*
- 10.32 Amendment to Employment Agreement between the Company and Glenn A. Kermes dated December 31, 2007 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated December 31, 2007)\*\*
- 10.33 Separation Agreement between the Company and Terry E. Treanor dated February 13, 2008 (Incorporated by reference to Exhibit 10.35 to Form 10-K for year ended December 31, 2008) \*\*

Table of Contents

Page 42

---



Edgar Filing: WINLAND ELECTRONICS INC - Form 10-K

- 10.34 Employment Agreement dated May 6, 2008 between the Company and Thomas J. de Petra (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated May 8, 2008) \*\*
- 10.35 Winland Electronics, Inc. 1997 Employee Stock Purchase Plan as amended May 6, 2006 (Incorporated by reference to Form S-8 dated September 5, 2008)\*\*
- 10.36 2008 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated May 6, 2008 and filed on May 12, 2008)\*\*
- 10.37 Amendment No.11 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 30, 2008 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 30, 2008 and filed on July 25, 2008)
- 10.38 Amendment No.12 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated October 27, 2008 (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the period ended September 30, 2008)
- 10.39 Winland Electronics, Inc. 2008 Equity Incentive Plan as amended May 5, 2009 (Incorporated by reference to Form S-8 dated June 10, 2009)\*\*
- 10.40 Amendment No.13 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated Jun 30, 2009 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated and filed on June 30, 2009)
- 10.41 Amendment No.14 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated September 30, 2009 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated September 30, 2009 and filed on October 6, 2009)
- 10.42 Amendment No.15 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated December 31, 2009 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated December 31, 2009 and filed on January 6, 2010)
- 23.1\* Consent of Baker Tilly Virchow Krause, LLP
- 23.2\* Consent of McGladrey & Pullen, LLP
- 24.1\* Power of Attorney for Thomas J. de Petra, Glenn A. Kermes, Lorin E. Krueger, Richard T. Speckmann, Thomas J. Goodmanson, Thomas J. Brady (included on signature page of this Form 10-K)
- 31.1\* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
- 31.2\* Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
- 32.1\* Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2\* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith.

\*\* Management agreement or compensatory plan or arrangement.

Table of Contents

Page 43

---

