WINLAND ELECTRONICS INC
Form 10-K/A
May 20, 2008

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

FORM 10-K/A

(Amendment No. 2)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

OR

o 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	41-0992135
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
1950 Excel Drive, Mankato Minnesota	56001
(Address of principal executive offices)	(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. Yeso Noþ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange

Act. Yeso Noþ

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 required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yesþ Noo

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. o

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 o	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yeso Noþ

The aggregate market value of the Common Stock held by non-affiliates as of June 30, 2007 was approximately $11,020,390 based on the closing sale price of the Issuer's Common Stock on such date.

There were 3,640,741 shares of Common Stock, $.01 par value, outstanding as of March 19, 2008.

DOCUMENTS INCORPORATED BY REFERENCE PURSUANT TO RULE 12b-23:
Portions of the Company's Proxy Statement for its 2008 Annual Meeting are incorporated by reference into Part III.

Explanatory Note

We are filing this Amendment No. 2 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the "Original Report") in order to amend Item 8 of the Original Report to include a signed copy of the audit report and to amend Item 9A of the Original Report to include the disclosures required by Item 307 of Regulation S-K.

Other than the amendment to Item 8 of the Original Report to include a signed copy of the audit report and to amend Item 9A of the Original Report to include the disclosures required by Item 307 of Regulation S-K, this Amendment No. 2 does not affect any other items in our Original Report. As a result of this amendment, we are also filing as exhibits to this Amended Report the certifications pursuant to section 302 and section 906 of the Sarbanes-Oxley Act of 2002, which are currently dated.

Except as otherwise expressly stated for the items amended in this Amendment No. 2, this Amendment No. 2 continues to speak as of the date of the Original Report and we have not updated the disclosure contained herein to reflect events that have occurred since the filing of the Original Report. Accordingly, this Amendment No. 2 should be read in conjunction with our Original Report and our other filings made with the SEC subsequent to the filing of the Original Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying balance sheets of Winland Electronics, Inc. as of December 31, 2007 and 2006, and the related statements of operations, changes in stockholders' equity and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6 to the financial statements, effective January 1, 2007, the Company adopted FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 ("FIN 48").

We were not engaged to examine management's assertion about the effectiveness of Winland Electronics Inc.'s internal control over financial reporting as of December 31, 2007 included in this 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 Certified Public Accountants
McGladrey & Pullen Certified Public Accountants
Minneapolis, Minnesota
March 21, 2008

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Winland Electronics, Inc.
Balance Sheets
December 31, 2007 and 2006
(In Thousands, Except Share Data)

	December 31,	
Assets (Note 3)	2007	2006
Current Assets		
Cash and cash equivalents	$ 1,152	$ 50
Accounts receivable, less allowance for doubtful accounts of $25,000 in 2007 and $20,000 in 2006 (Note 9)	3,436	5,165
Refundable income taxes	389	237
Inventories (Note 2)	4,708	6,994
Prepaid expenses and other assets	253	364
Deferred income taxes (Note 6)	400	278
Total current assets	10,338	13,088
Property and Equipment, at cost (Notes 3 and 4)		
Land and land improvements	383	383
Building	3,052	3,048
Machinery and equipment	6,798	6,863
Data processing equipment	1,128	1,003
Office furniture and equipment	466	457
Total property and equipment	11,827	11,754
Less accumulated depreciation	6,410	5,975
Net property and equipment	5,417	5,779
Total assets	$ 15,755	$ 18,867

See Notes to Financial Statements.

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Winland Electronics, Inc.
Balance Sheets
December 31, 2007 and 2006
(In Thousands, Except Share Data)

	December 31, 2007	December 31, 2006
Liabilities and Stockholders' Equity		
Current Liabilities		
Revolving credit agreement (Note 3)	$ -	$ 1,924
Current maturities of long-term debt	512	627
Accounts payable	1,729	2,830
Accrued expenses:		
Compensation	733	673
Other	379	323
Total current liabilities	3,353	6,377
Long-Term Liabilities		
Long-term debt, less current maturities (Notes 3 and 4)	1,471	1,706
Deferred income taxes (Note 6)	282	255
Deferred revenue (Note 5)	138	146
Other long term tax liabilities	129	-
Total long-term liabilities	2,020	2,107
Total liabilities	5,373	8,484
Commitments and Contingencies (Notes 4, 7, 8 and 10)		
Stockholders' Equity (Notes 7 and 10)		
Common stock, par value $0.01 per share; authorized 20,000,000		
shares; issued and outstanding 3,640,741 shares in 2007 and 3,599,856 shares in 2006	36	36
Additional paid-in capital	4,691	4,429
Retained earnings	5,655	5,918
Total stockholders' equity	10,382	10,383
Total liabilities and stockholders' equity	$ 15,755	$ 18,867

See Notes to Financial Statements.

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Winland Electronics, Inc.
Statements of Operations
Years Ended December 31, 2007 and 2006
(In Thousands, Except Share Data)

	December 31, 2007		December 31, 2006	
Net sales (Note 9)	$	34,746	$	37,945
Cost of sales		29,960		31,440
Gross profit		4,786		6,505
Operating expenses:				
General and administrative		2,648		2,480
Sales and marketing		1,709		1,637
Research and development		1,049		642
		5,406		4,759
Operating income (loss)		(620)		1,746
Other income (expenses):				
Interest expense		(261)		(187)
Other, net		89		9
		(172)		(178)
Income (loss) before income taxes		(792)		1,568
Income tax benefit (expense) (Note 6)		529		(530)
Net income (loss)	$	(263)	$	1,038
Earnings (loss) per common share data:				
Basic	$	(0.07)	$	0.29
Diluted	$	(0.07)	$	0.28
Weighted-average number of common shares outstanding:				
Basic		3,615,108		3,553,062
Diluted		3,615,108		3,653,891

See Notes to Financial Statements.

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Winland Electronics, Inc.
Statements of Changes in Stockholders' Equity
Years Ended December 31, 2007 and 2006
(In Thousands, Except Share Data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total
Balance on December 31, 2005	3,527,915	$ 35	$ 4,164	$ 4,880	$ 9,079
Issuance of common stock in accordance with employee stock purchase plan (Note 8)	8,375	-	24	-	24
Issuance of common stock in accordance with employee stock option plan (Note 7)	63,566	1	52	-	53
Stock-based compensation expense for employee stock purchase plan	-	-	10	-	10
Stock-based compensation expense for stock options	-	-	128	-	128
Tax benefit from disqualifying disposition of stock options	-	-	43	-	43
Stock-based expense for warrants (Note 7)	-	-	8	-	8
Net income	-	-	-	1,038	1,038
Balance on December 31, 2006	3,599,856	$ 36	$ 4,429	$ 5,918	$ 10,383
Issuance of common stock in accordance with employee stock purchase plan (Note 8)	10,365	-	24	-	24
Issuance of common stock in accordance with employee stock option plan (Note 7)	30,520	-	27	-	27
Stock-based compensation expense for employee stock purchase plan	-	-	11	-	11
Stock-based compensation expense for stock options	-	-	167	-	167
Tax benefit from disqualifying disposition of stock options	-	-	10	-	10
Stock-based expense for warrants (Note 7)	-	-	23	-	23
Net loss	-	-	-	(263)	(263)
Balance on December 31, 2007	3,640,741	$ 36	$ 4,691	$ 5,655	$ 10,382

See Notes to Financial
Statements.

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Winland Electronics, Inc.
Statements of Cash Flows
Years Ended December 31, 2007 and 2006
(In Thousands of Dollars)

	2007	2006
Cash Flows From Operating Activities		
Net income (loss)	$ (263)	$ 1,038
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	879	812
Loss on disposal of equipment	1	8
Investor relations expense, non-cash warrants	-	3
Consulting expense, non-cash warrants	23	8
Non-cash stock based compensation	178	137
Deferred taxes	(95)	(48)
Changes in operating assets and liabilities:		
Accounts receivable	1,729	(1,132)
Refundable income taxes	(152)	(189)
Inventories	2,286	(3,471)
Prepaid expenses and other assets	111	(52)
Accounts payable	(1,101)	1,343
Accrued expenses, including deferred revenue and other long term tax liabilities	237	(13)
Net cash provided by (used in) operating activities	3,833	(1,556)
Cash Flows From Investing Activities		
Purchases of property and equipment	(228)	(715)
Proceeds from sale of property and equipment	20	-
Net cash used in investing activities	(208)	(715)
Cash Flows From Financing Activities		
Net borrowings (payments) on revolving credit agreement	(1,924)	1,924
Net principal payments on long-term borrowings, including capital lease obligations	(660)	(587)
Proceeds from issuance of common stock	51	76
Tax benefit from options exercised	10	43
Net cash provided by (used in) financing activities	(2,523)	1,456
Net increase (decrease) in cash	1,102	(815)
Cash and cash equivalents		
Beginning of year	50	865
End of year	$ 1,152	$ 50
Supplemental Disclosures of Cash Flow Information		

Cash payments for:				
Interest	$	276	$	171
Income taxes	$	-	$	726
Supplemental Schedule of Noncash Investing and Financing Activities				
Acquisition of property under capital leases	$	310	$	957

See Notes to Financial Statements.

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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) operates in one business segment, which includes the design and manufacture of electronic control devices. Sales are to customers located primarily in the upper Midwest.

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, 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.

With one particular customer, Winland recognizes revenue from the sale of customized products when the product is delivered to a customer warehouse location within its facility, title is transferred and risk of loss and ownership passes to the buyer. These sales are subject to written purchase orders including a fixed schedule for delivery; the date for delivery is reasonable and consistent with the buyer's business purpose. The product cannot be used to fulfill other customers' orders, as this is a unique product for this customer only. Winland is the sole supplier source of this product for this customer. Because of the unique nature of this product, the customer must have stock on hand and ready to ship to their customers and, therefore, has requested that the transaction be on a bill and hold basis. Since the customer does not have its own warehouse, they rent warehouse space from Winland paying a monthly rental charge based on the number of pallets containing their inventory. The customer's credit and payment terms are the same as all other OEM customers.

Another portion of Winland'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 services 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. As of December 31, 2007, the customer has paid Winland approximately $181,000 for these services which have yet to be amortized into manufactured units. The $181,000 payment is classified as unearned revenue and recorded in Other Accrued Expenses on the balance sheet as of December 31, 2007.

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 goods sold. 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.

Cash and cash equivalents: Cash and cash equivalents include money market mutual funds and other highly liquid investments. 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.

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Winland Electronics, Inc.
Notes to Financial Statements

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

Accounts receivable and Allowance for Doubtful Accounts: Accounts receivable are carried at original invoice amount less an estimate made for uncollectible 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 (such as bankruptcy status), 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. Write offs for the year ended December 31, 2007 and 2006 were $31,000 and $0, respectively. The Allowance for Doubtful Accounts was $25,000 and $20,000 at December 31, 2007 and 2006, respectively.

Inventory Valuation: Finished goods inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or market value. Raw component inventories are stated at standard costs identified and updated annually or when significant changes in costs are identified using the last received cost. Winland makes provisions for slow moving, estimated excess and obsolete inventory based on historical experience, an analysis of the existing inventory and specific identification of obsolete inventory. Management's estimated reserve for slow moving and obsolete inventories was $460,000 and $190,000 as of December 31, 2007 and 2006, respectively.

In addition to the above methodology, Winland has developed procedures that will provide for estimated excess, slow moving and obsolete inventory reserves based on quarterly reviews for its major customers and annual reviews for lower volume customers of inventory quantities on hand and on order in conjunction with the latest forecasts of product demand and production requirements from these customers. Inventory not specific to a customer is evaluated at least annually.

Depreciation: Depreciation is computed using the straight-line method based on the estimated useful lives of the various assets or capital lease term, 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: Winland reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future cash flows be less than the carrying value, Winland would recognize an impairment loss. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the long-lived assets. There were no impairment losses recognized in 2007 and 2006.

Allowance for Rework and Warranty Costs. Winland has established a warranty reserve for rework, product warranties and customer refunds. Winland provides a limited warranty to its OEM customers who require us 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 warranty expense for the prior six-month period as a percentage of sales. 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 $160,000 as of December 31, 2007 and $126,000 as of December 31, 2006. The product warranty liability reflects management's best estimate of probable liability under Winland's product warranties and may differ from actual results.

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Winland Electronics, Inc.
Notes to Financial Statements

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

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

	Years Ended December 31	
	2007	2006
Balance, beginning	$ 126,000	$ 117,000
Accruals for products sold	636,000	249,000
Payments made	(602,000)	(240,000)
Balance, ending	$ 160,000	$ 126,000

Income taxes: Income taxes are accounted for in accordance with FAS No. 109, "Accounting for Income Taxes" ("FAS 109") as clarified by FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes ("FIN 48"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred income tax assets, we consider whether it is "more likely than not," according to the criteria of FAS 109, 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. FIN 48 requires that we recognize 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 value of accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments.

Earnings (loss) per common share: Basic earnings (loss) per common share are computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period, including potentially dilutive shares such as the options and warrants to purchase shares of common stock at various amounts per share (see Note 7). For year ended December 31, 2007, 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 27,080 weighted average shares due to the net loss for the year ended December 31, 2007. The dilutive effect of the additional shares for the year ended December 31, 2006 was to increase the weighted-average shares outstanding by 100,829.

Employee stock plans: At December 31, 2007, Winland had stock-based compensation plans, which are described more fully in Note 7. Winland accounts for these plans under the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), using the modified-prospective-transition method. Under this transition method, compensation cost recognized for the twelve months ended December 31, 2007 and 2006 includes compensation costs for all share-based awards granted prior to

January 1, 2006, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and compensation cost for all share-based payments granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

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Winland Electronics, Inc.
Notes to Financial Statements

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

Research and development expense: Winland expenses research and development costs as incurred. Research and development expenses of $1,049,000 and $642,000 were charged to operations during the years ended December 31, 2007 and 2006, respectively.

Recently issued accounting pronouncements: In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are required to adopt SFAS 157 in the first quarter of 2008. We believe that the financial impact, if any, of adopting SFAS 157 will not result in a material impact to our financial statements.

On February 15, 2007, the FASB, issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS No. 159 gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are required to adopt SFAS 159 in the first quarter of 2008. We believe that the financial impact, if any, of adopting SFAS 159 will not result in a material impact to our financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations ("SFAS 141R"). SFAS 141R requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction at fair value as of the acquisition date. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This standard will change our accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements ("SFAS 160"). SFAS 160 requires all entities to report noncontrolling interests as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of this statement will have a material impact on its financial position or results of operations.

Note 2. Inventories

The components of inventories at December 31, 2007 and 2006, were as follows:

	December 31	
	2007	2006
Raw materials	$ 3,467,000	$ 4,764,000
Work in progress	293,000	327,000
Finished goods	948,000	1,903,000
Total	$ 4,708,000	$ 6,994,000

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Winland Electronics, Inc.
Notes to Financial Statements

Note 3. Financing Arrangement and Long-Term Debt

Winland has a $4,000,000 revolving line of credit agreement with M&I Bank of Minneapolis, Minnesota, expiring June 30, 2008, if not renewed. Advances are due on demand, secured by substantially all assets of Winland, and are subject to a defined borrowing base equal to 80% of qualified accounts receivable and 50% of qualified inventory. Interest on advances accrues at the LIBOR rate plus two and one-half percent (2.5%), which was 7.1% as of December 31, 2007. Advances outstanding on the revolving line of credit agreement as of December 31, 2007 and 2006 were $0 and $1,924,000, respectively. At December 31, 2007, $4,000,000 was available for borrowing under the terms of this agreement. See also (a) following.

During 2006, Winland entered into a Master Lease of Personal Property with M&I Equipment Finance Company of Milwaukee, Wisconsin. Under the lease, Winland can acquire new capital equipment to be used in its manufacturing processes. Individual leases under the master agreement have a 60-month term bearing an interest rate equal to the 30-month LIBOR swap rate plus 225 basis points effective the date each individual lease is approved. As of December 31, 2007 and 2006, Winland had drawn funds under this lease agreement totaling $1,268,000 and $957,000, respectively, of which $1,019,000 and $908,000 remained outstanding, respectively.

Long-term debt: The following is a summary of long-term debt:

	December 31	
	2007	2006
6.44% note payable, due in monthly installments of $11,373, including interest, to October 1, 2014, when the remaining balance is payable, secured by property (a), (b)	$ 741,000	$ 826,000
4.91% note payable, principal due in monthly installments of $20,833, with interest to April 1, 2008, when the remaining balance is payable, secured by property and equipment (a)	59,000	310,000
6.50% note payable, principal due in monthly installments of $10,417, with interest to May 31, 2009, when the remaining balance is payable, secured by property and equipment (a)	164,000	289,000
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	1,019,000	908,000
	$ 1,983,000	$ 2,333,000
Less current maturities	512,000	627,000
Total long-term debt	$ 1,471,000	$ 1,706,000

(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, 2007, 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, 2007.

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Winland Electronics, Inc.
Notes to Financial Statements

Note 3. Financing Arrangement and Long-Term Debt (Continued)

Approximate maturities of long-term debt for years subsequent to December 31, 2007, are as follows:

2008	$ 512,000
2009	392,000
2010	380,000
2011	332,000
2012	148,000
Thereafter	219,000
Total	$ 1,983,000

Capital leases: The cost and accumulated depreciation of assets acquired under capital leases at December 31, 2007 and 2006, were as follows:

	2007	2006
Cost	$ 1,714,000	$ 1,404,000
Accumulated depreciation	696,000	454,000
Net leased property under capital leases	$ 1,018,000	$ 950,000

The future minimum lease payments under capital leases and the aggregate present value of the net minimum lease payments at December 31, 2007, are approximately as follows:

Minimum Lease Payments:	
2008	$ 307,000
2009	307,000
2010	306,000
2011	231,000
2012	30,000
	1,181,000
Less amount representing interest	162,000
Present value of net minimum lease payments (included in long-term debt) (Note 3)	$ 1,019,000

Note 4. Commitments and Contingencies

Separation Agreement: At December 31, 2007, Winland had a commitment to pay $196,625 to its former President and Chief Executive Officer, Lorin Krueger as part of the separation agreement between the Company and Mr. Krueger. Effective, January 3, 2008, Winland's Chairman of the Board will act as interim President and Interim Chief Executive Officer.

Environmental Regulations: The European Union ("EU") has two directives, Restriction of the use of Certain Hazardous Substances ("RoHS") and Waste Electrical and Electronic Equipment ("WEEE"), which affect the worldwide electronics supply-chain and Winland's processes and products. As of December 31, 2007, Winland had not accrued for costs such as on-going compliant efforts, shipping delays or liability for non-compliant products due to these directives. At this time, Winland cannot reasonably estimate the amount of future liability, if any.

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Winland Electronics, Inc.
Notes to Financial Statements

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 (expense) are as follows:

	December 31	
	2007	2006
Currently payable	$ 391,000	$ (578,000)
Deferred	138,000	48,000
	$ 529,000	$ (530,000)

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

	December 31	
	2007	2006
Statutory U.S. income tax rate	(34%)	34%
State taxes, net of federal tax effect	(14%)	4%
Research and Development Credits	(29%)	-%
Other, including permanent differences	10%	(4%)
Effective income tax rate	(67%)	34%

Net deferred tax assets consist of the following components as of December 31, 2007 and 2006:

	December 31	
	2007	2006
Deferred tax assets:		
Inventory	$ 235,000	$ 150,000
Allowance for doubtful accounts	9,000	7,000
Non-qualified stock options	53,000	27,000
Accrued expenses	154,000	160,000
Net operating loss carryforward	18,000	-
Other	34,000	2,000
	503,000	346,000
Deferred tax liabilities:		
Property and equipment	325,000	255,000
Prepaid expenses	37,000	68,000
Other	23,000	-

	385,000	323,000
Net deferred tax assets	$ 118,000	$ 23,000

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Winland Electronics, Inc.
Notes to Financial Statements

Note 6. Income Taxes (Continued)

The deferred tax amounts mentioned above have been classified on the accompanying balance sheets as of December 31, 2007 and 2006, as follows:

	December 31	
	2007	2006
Current assets	$ 400,000	$ 278,000
Noncurrent liabilities	(282,000)	(255,000)
Net deferred tax assets	$ 118,000	$ 23,000

Effective January 1, 2007, Winland adopted the Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109. As required by FIN 48, 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 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

At the adoption date of January 1, 2007, the Company had no unrecognized tax benefits which needed to be adjusted. The Company had gross increases of $129,000 of unrecognized tax benefits for the year ended December 31, 2007 relating to tax positions taken in the current period.

Included in the balance at December 31, 2007, the Company recognized a $301,000 reduction in income tax expense 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 FIN 48, Accounting for Uncertainty in Income Taxes.

At the adoption date of January 1, 2007, the Company had no unrecognized tax benefits that, if recognized, would affect the effective tax rate. As of December 31, 2007 the Company had approximately $129,000 of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

The Company recognizes interest and penalties accrued on unrecognized tax benefits as well as interest received from favorable tax settlements within general and administrative expenses. At the adoption date of January 1, 2007, the Company recognized no interest or penalties related to uncertain tax positions. As of December 31, 2007, the Company recognized no interest or penalties related to uncertain tax positions due to the insignificance to its financial position and results of operations.

The Company files income tax returns in the U.S. federal and state jurisdictions. The Company is currently under examination by the Internal Revenue Service (IRS) for its 2004 through 2006 tax years and the State of Minnesota for its 2003 through 2006 tax years. The Company has not recorded any material adjustment in the liability for unrecognized income tax benefits related to these audits. The years 2004 through 2007 remain open for examination by other state agencies.

Given the fact that the Company is currently under audit by the IRS and the State of Minnesota, it is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months. An estimate of the range of such gross changes cannot be made at this time. However, the Company does not expect the changes to have a significant impact on its effective tax rate or expected cash payments for income taxes within the next 12 months.

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Winland Electronics, Inc.
Notes to Financial Statements

Note 7. Warrants and Stock-Based Compensation Plans

Warrants: On February 1, 2005, Winland granted to Hayden Communications, Inc. warrants to purchase 20,000 shares of common stock that vested to the extent of 10,000 shares on August 1, 2005 and 10,000 shares on February 1, 2006. The term of each 10,000 share increment will extend three years from the date of vesting. As of December 31, 2007, warrants to purchase 20,000 shares of common stock at $3.96 were exercisable and outstanding. The warrants were valued using the Black-Scholes pricing model and were amortized as investor relations expense over the term of the service agreement. Investor relations expense from the amortization of warrants was $0 and $3,123 for the years ended December 31, 2007 and 2006, respectively.

On February 16, 2006, Winland granted to Board Assets, Inc., a strategic planning consultant, warrants to purchase 5,000 shares of common stock at an exercise price of $4.01 per share. Winland scheduled two board strategy meetings with Board Assets, Inc., one in July 2006 and the other in January 2007. Upon completion of the performance of Board Assets, Inc as facilitator for each of those meetings, 2,500 shares were scheduled to vest. These warrants expire on February 16, 2016, if not exercised. As of December 31, 2007, the first 2,500 shares vested and, using the Black-Scholes pricing model, $3.26 per share amounting to $8,142 of consulting expense was recorded in 2006. The agreement between Winland and Board Assets, Inc. was terminated in October 2006. Based on this termination, the second 2,500 shares did not vest and Winland will not incur additional expense for these shares.

On September 9, 2006, Winland granted to Steven P. Friswold and Bruce H. Senske, principals of Genoa Business Advisors, LLC ("Genoa"), warrants for each to purchase 10,000 shares of common stock at an exercise price of $3.40 per share. Winland and Genoa developed two strategic business initiatives which Genoa must execute in order for the warrants to vest. These warrants shall vest and become exercisable to the extent of 5,000 shares each upon completion of Initiative 1 by Genoa and 5,000 shares each upon completion of Initiative 2 by Genoa. The warrants terminate on September 6, 2011, if not exercised. As of December 31, 2007, Initiative 1 was complete and 5,000 shares each vested. The shares were valued using the Black-Scholes pricing method at a fair value of $2.26 per share amounting to $22,581 of consulting expense for the year ended December 31, 2007. The agreement between Winland and Genoa was terminated in November 2007. Based on this termination, the second 10,000 shares will not vest and Winland will not incur additional expense for these shares.

Stock option and employee stock purchase plans: As of December 31, 2007, Winland had one equity-based compensation plan, the 2005 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 1997 Stock Option Plan. The plans are as follows:

2005 Equity Incentive Plan – This plan provides awards in the form of incentive stock options, nonqualified stock options, and restricted stock. Currently, this is the only plan under which awards are authorized for grant. As approved by the shareholders in May 2005, the plan authorized issuance of up to 400,000 shares. Awards issued under the plan as of December 31, 2007 include 212,000 shares of incentive stock options and 66,000 nonqualified stock options of which 267,000 are outstanding and 70,600 of which are vested at December 31, 2007. The exercise price is equal to the fair market value of Winland's common stock at the date of grant. Options generally vest over 5 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 or reorganization.

1997 Stock Option Plan – This plan provided for grants in both the form of incentive stock options and nonqualified stock options. The plan was terminated as to future grants in May 2005. At December 31, 2007 there were 104,100 options outstanding under this plan of which 92,940 are vested.

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Winland Electronics, Inc.
Notes to Financial Statements

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

1997 Employee Stock Purchase Plan – The 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 100,000 shares of common stock were authorized for issuance under the ESPP of which 90,191have been issued. The ESPP expired on December 31, 2007. Winland issued 10,365 and 8,375 shares for the years ended December 31, 2007 and 2006, respectively, incurring $10,780 and $9,926 of compensation expense under this plan for the same periods.

Prior to January 1, 2006, Winland accounted for its equity-based compensation plans under the recognition and measurement provision of APB Opinion No. 25, Accounting for Stock Issued to Employees (“APB 25”), and related Interpretations, as permitted by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (“SFAS 123”). Effective January 1, 2006, Winland adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (“SFAS 123R”), using the modified-prospective-transition method. Under this transition method, compensation cost recognized in the years ended December 31, 2007 and 2006 includes compensation costs for all share-based payments granted prior to January 1, 2006, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and compensation cost for all share-based payments granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

Winland’s stock based compensation expense for the years ended December 31, 2007 and 2006 was $178,000 and $137,000 higher than if Winland had continued to account for stock-based compensation under APB Opinion No. 25 for its stock option grants to employees. A total of $43,000 and $8,000 such expense was capitalized in inventory costs for the years ended December 31, 2007 and 2006, respectively.

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	
	2007	2006
Expected life, in years	5-10	5-10
Expected volatility	69.9%	81.9%
Risk-free interest rate	4.4%	4.7%
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. Prior to adoption of SFAS 123R, all tax benefits resulting from the exercise of stock options were reported as operating cash flows in the Statements of Cash Flows. In accordance with SFAS 123R, Winland revised its Statements of Cash Flows presentation to report any tax benefit from the exercise of stock options as financing cash flows. For the years ended December 31, 2007 and 2006, there were stock option exercises and disqualifying stock dispositions which triggered $10,000 and $43,000 in tax benefits, therefore net cash provided by financing activities was increased as a result of the adoption of SFAS 123R.

Net cash proceeds from the exercise of stock options were $27,000 and $53,000 for the years ended December 31, 2007 and 2006. For the years ended December 31, 2007 and 2006, 21,340 and 30,847 options were exercised in stock swaps, using previously owned shares of Winland's common stock as payment for the shares.

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

The following table represents stock option activity for the twelve months ended December 31, 2007 and 2006:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
Outstanding options at January 1, 2006	265,571	$ 2.25	
Granted	100,000	3.66	
Exercised	(78,235)	1.49	
Forfeited	(1,296)	1.62	
Outstanding options at December 31, 2006	286,040	$ 2.95	4.05 Yrs
Outstanding options at January 1, 2007	286,040	$ 2.95	
Granted	156,000	2.88	
Exercised	(38,840)	1.29	
Forfeited	(32,100)	2.92	
Outstanding options at December 31, 2007	371,100	$ 3.10	4.95 Yrs
Outstanding exercisable at December 31, 2007	163,540	$ 3.22	4.01 Yrs

The aggregate intrinsic value of options outstanding at December 31, 2007 and 2006 was $15,000 and $175,000, respectively. The aggregate intrinsic value of options exercisable at December 31, 2007 and 2006 was $9,000 and $139,000, respectively. Total intrinsic value of options exercised for the twelve months ended December 31, 2007 and 2006 was $55,000 and $240,000, respectively.

During the years ended December 31, 2007 and 2006, Winland granted 156,000 and 100,000 options, respectively. These options had a weighted average grant date fair value of $1.55 and $2.61 per share, respectively.

The following table summarizes information about stock options outstanding at December 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$ 0.91 - $1.34	8,800	0.9	1.27	8,800	1.27
$ 1.80 - $2.24	27,000	5.8	2.11	-	-
$ 2.25 - $2.69	66,800	4.1	2.45	18,840	2.46
$ 2.70 - $3.13	61,500	1.3	2.90	54,300	2.89

$	3.14 - $3.58	139,000	6.7		3.35	32,800		3.29
$	3.59 - $4.03	24,000	4.6		3.62	4,800		3.62
$	4.04 - $4.48	44,000	6.4		4.26	44,000		4.26
		371,100	5.0	$	3.10	163,540	$	3.22

At December 31, 2007, there was $226,000 of unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted-average period of 2.6 years.

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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 percent of their eligible compensation. The plan also provides for a Company-sponsored match to be determined each year by the Board of Directors. Winland contributed approximately $100,000 and $105,000 to the plan for the years ended December 31, 2007 and 2006, 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, 2007 and 2006.

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 $209,000 and $193,000 to the plan for the year ended December 31, 2007 and 2006, respectively.

Note 9. Major Customers, International Sales and Enterprisewide Disclosures

Major customers: Winland has customers which accounted for more than 10 percent of net sales for the years ended December 31, 2007 and 2006, as follows:

	2007	2006
Sales percentage:		
Customer A	20%	38%
Customer B	19%	19%
Customer C	18%	9%
Accounts receivable percentage at December 31:		
Customer A	10%	7%
Customer B	13%	26%
Customer C	39%	17%

International sales: Export sales to international customers for 2007 and 2006 were approximately $231,000 and $201,000, respectively. Accounts receivable from international customers were approximately $17,000 and $7,000 at December 31, 2007 and 2006, respectively.

Enterprisewide disclosures: The following table presents approximate revenues from external customers for each of Winland’s groups of products and services:

	Years Ended December 31	
	2007	2006
Electronic controls and assemblies for OEM customers	$ 29,004,000	$ 33,842,000
Proprietary microprocessors and mechanically controlled sensors and alarms	3,075,000	3,260,000
Raw material and sub-assemblies for OEM customers	1,866,000	518,000
Engineering and test design services	714,000	246,000

Freight	87,000	79,000
	$ 34,746,000	$ 37,945,000

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Winland Electronics, Inc.
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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 percent 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.

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ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls

Our Chief Executive Officer and Chief Financial Officer, referred to collectively herein as the Certifying Officers, are responsible for establishing and maintaining our disclosure controls and procedures. The Certifying Officers have reviewed and evaluated the effectiveness of Winland's disclosure controls and procedures (as defined in Rules 240.13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) as of December 31, 2007. Based on that review and evaluation, which included inquiries made to certain other employees of Winland, the Certifying Officers have concluded that Winland's current disclosure controls and procedures, as designed and implemented, are effective in ensuring that information relating to Winland required to be disclosed in the reports that Winland files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such information is accumulated and communicated to Winland's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate 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 effective internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Winland's internal control over financial reporting is a process designed 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 transactions and dispositions of Winland's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that Winland's receipts and expenditures are being made only in accordance with authorizations of Winland's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Winland's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed Winland's internal control over financial reporting in relation to criteria described in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment using those criteria, we concluded that, as of December 31, 2007, Winland's internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm 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.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WINLAND ELECTRONICS, INC.

Date: May 20, 2008	By:	/s/ Thomas J. de Petra
		Thomas J. de Petra
		President and Chief Executive Officer

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