

WINLAND ELECTRONICS INC
Form 10-Q
November 08, 2013

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

FORM 10-Q

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

For the Quarter Ended: September 30, 2013

OR

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

For the transition period from _____ to _____.

Commission File No.: 1-15637

WINLAND ELECTRONICS, INC.
(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)

(507) 625-7231
(Issuer's telephone number)

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

| <u>Title of Each Class</u> | <u>Name of Exchange</u> |
|---------------------------------|-------------------------|
| Common Stock, \$.01 par value | OTCQB Markets |
| Preferred Stock Purchase Rights | OTCQB Markets |

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

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

Edgar Filing: WINLAND ELECTRONICS INC - Form 10-Q

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

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

There were 3,789,522 shares of Common Stock, \$.01 par value, outstanding as of November 4, 2013.

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| PART I – FINANCIAL INFORMATION | |
| ITEM 1. <u>FINANCIAL STATEMENTS</u> | 3 |
| <u>CONDENSED BALANCE SHEETS</u> | 3 |
| <u>CONDENSED STATEMENTS OF OPERATIONS</u> | 4 |
| <u>CONDENSED STATEMENTS OF CASH FLOWS</u> | 5 |
| <u>NOTES TO CONDENSED FINANCIAL STATEMENTS</u> | 6 |
| ITEM 2. <u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 10 |
| ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 13 |
| ITEM 4. <u>CONTROLS AND PROCEDURES</u> | 13 |
| PART II – OTHER INFORMATION | |
| ITEM 1. <u>LEGAL PROCEEDINGS</u> | 14 |
| ITEM 1A. <u>RISK FACTORS</u> | 14 |
| ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | 14 |
| ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u> | 14 |
| ITEM 4. <u>MINE SAFETY DISCLOSURES</u> | 14 |
| ITEM 5. <u>OTHER INFORMATION</u> | 14 |
| ITEM 6. <u>EXHIBITS</u> | 14 |
| <u>SIGNATURES</u> | 15 |
| <u>EXHIBIT INDEX</u> | 16 |

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WINLAND ELECTRONICS, INC.
CONDENSED BALANCE SHEETS
(In Thousands, Except Share Data)

| | September 30, 2013 | December 31, 2012 |
|---|-----------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,333 | \$ 390 |
| Funds held in escrow from sale of manufacturing facility, including land (Note 8) | - | 2,641 |
| Accounts receivable, less allowance for doubtful accounts of \$7 as of September 30, 2013 and December 31, 2012 (Note 2) | 474 | 516 |
| Inventories (Note 4) | 653 | 884 |
| Prepaid expenses and other assets | 207 | 56 |
| Total current assets | 2,667 | 4,487 |
| Property and Equipment, at cost | | |
| Property and equipment | 372 | 321 |
| Less accumulated depreciation and amortization | 269 | 278 |
| Net property and equipment | 103 | 43 |
| Total assets | \$ 2,770 | \$ 4,530 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 455 | \$ 503 |
| Accrued liabilities: | | |
| Compensation | 133 | 60 |
| Other | 34 | 30 |
| Total current liabilities | 622 | 593 |
| Stockholders' Equity (Note 6) | | |
| Common stock, par value \$0.01 per share; authorized 20,000,000 shares; issued and outstanding 3,789,522 as of September 30, 2013 and 3,701,630 as of December 31, 2012 | 38 | 37 |
| Additional paid-in capital | 5,174 | 5,055 |
| Accumulated deficit | (3,064) | (1,155) |
| Total stockholders' equity | 2,148 | 3,937 |
| Total liabilities and stockholders' equity | \$ 2,770 | \$ 4,530 |

See Notes to Condensed Financial Statements

Table of Contents

WINLAND ELECTRONICS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(In Thousands, Except Share and Per Share Data)

(unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-----------|--|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Net sales (Note 2) | \$977 | \$1,141 | \$2,719 | \$2,767 |
| Cost of sales | 694 | 811 | 1,885 | 1,969 |
| Gross profit | 283 | 330 | 834 | 798 |
| Operating expenses: | | | | |
| General and administrative | 377 | 277 | 1,106 | 561 |
| Sales and marketing | 361 | 184 | 871 | 537 |
| Research and development | 214 | 60 | 771 | 194 |
| Total operating expenses | 952 | 521 | 2,748 | 1,292 |
| Operating loss | (669) | (191) | (1,914) | (494) |
| Other income | - | 12 | 5 | 16 |
| Loss from continuing operations | (669) | (179) | (1,909) | (478) |
| Income from discontinued operations, net of tax | - | 65 | - | 196 |
| Net loss | \$(669) | \$(114) | \$(1,909) | \$(282) |
| Loss per common share data: | | | | |
| Basic and diluted | \$(0.18) | \$(0.03) | \$(0.51) | \$(0.08) |
| Loss from continuing operations per common share data: | | | | |
| Basic and diluted | \$(0.18) | \$(0.05) | \$(0.51) | \$(0.13) |
| Income from discontinued operations per common share data: | | | | |
| Basic and diluted | \$- | \$0.02 | \$- | \$0.05 |
| Weighted-average number of common shares outstanding: | | | | |
| Basic and diluted | 3,789,522 | 3,701,630 | 3,741,442 | 3,701,630 |

See Notes to Condensed Financial Statements

Page 4 of 16

Table of Contents

WINLAND ELECTRONICS, INC.
 CONDENSED STATEMENTS OF CASH FLOWS
 (In Thousands)
 (Unaudited)

| | For the Nine Months Ended September 30, | |
|---|---|----------|
| | 2013 | 2012 |
| Cash Flows From Operating Activities | | |
| Net loss | \$(1,909) | \$(282) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 19 | 26 |
| Non-cash stock based compensation | 120 | 36 |
| Increase in allowance for obsolete inventory | 6 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | 42 | (229) |
| Inventories | 225 | (65) |
| Deferred rent receivable | - | 32 |
| Prepaid expenses | (151) | (47) |
| Accounts payable | (48) | (72) |
| Accrued liabilities | 77 | (71) |
| Net cash used in operating activities | (1,619) | (672) |
| Cash Flows From Investing Activities | | |
| Purchases of property and equipment | (79) | (5) |
| Receipt of funds held in escrow | 2,641 | - |
| Net cash provided by (used in) investing activities | 2,562 | (5) |
| Net increase (decrease) in cash and cash equivalents | 943 | (677) |
| Cash and cash equivalents | | |
| Beginning | 390 | 1,031 |
| Ending | \$1,333 | \$354 |

See Notes to Condensed Financial Statements

Page 5 of 16

Table of Contents

Note 1. Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared by Winland Electronics, Inc. (the “Company” or “Winland”) in accordance with accounting principles generally accepted in the United States of America for the preparation of interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Financial results for the nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The condensed balance sheet at December 31, 2012 has been derived from the audited financial statements as of that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statement presentation.

This financial information should be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

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

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

Discontinued Operations: On November 27, 2012, Winland executed a Purchase Agreement with Nortech Systems, Inc. (“Nortech”) to sell the Company’s building and land. Winland and Nortech executed the closing documents on December 31, 2012 with the funds placed in to escrow with North American Title Company. Winland received the funds on January 8, 2013. The assets were not classified as non-current discontinued assets prior to the sale of the assets on December 31, 2012, as the Company received significant cash flows from the asset group until the sale date. As a result of the sale of the land and building on December 31, 2012, the Company determined it would not have any significant continuing involvement in the operations of the asset group after the disposal date and, therefore, reclassified the operations presented as discontinued operations.

Note 2. Major Customers

The Company has two customers that accounted for ten percent (10%) or more of net sales for the three and nine months ended September 30, 2013 and 2012 as follows:

| | For the Three Months Ended September 30, | | | |
|-------------------|--|------|--|--|
| Sales percentage: | 2013 | 2012 | | |
| Customer A | 50 % | 61 % | | |
| Customer B | 12 % | * | | |

| | For the Nine Months Ended September 30, | | | |
|-------------------|---|------|--|--|
| Sales percentage: | 2013 | 2012 | | |
| Customer A | 49 % | 52 % | | |

Customer B 13 % *

* Sales to this customer were less than ten percent (10%) of total sales for the period reported.

Page 6 of 16

Table of Contents

Note 2. Major Customers (Continued)

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

| | September 30, | |
|---------------------------------|------------------|------|
| Accounts receivable percentage: | 2013 | 2012 |
| Customer A | 54 % | 70 % |
| Customer B | 15 % | * |

* Net receivables (as a percentage of total receivables) were less than ten percent (10%) for this customer.

Note 3. Loss per Common Share

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 6).

For the three and nine months ended September 30, 2013 and 2012, 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 693,000 and 286,000 weighted average shares for the three and nine months ended September 30, 2013 and 2012, respectively, as inclusion of these shares would have been anti-dilutive.

Note 4. Inventories

The components of inventories were as follows net of reserves:

| | September 30, 2013 | December 31, 2012 |
|----------------|-----------------------|----------------------|
| Raw materials | \$ 95 | \$ 114 |
| Finished goods | 558 | 770 |
| Total, net | \$ 653 | \$ 884 |

Winland estimates excess, slow moving and obsolete reserves for inventory on a quarterly basis based upon order demand. Management's estimated valuation reserve for slow moving and obsolete finished goods inventories was \$30 at September 30, 2013 and \$24 at December 31, 2012.

Note 5. Allowance for Rework and Warranty Costs

Winland provides a limited warranty for its products for a period of one year, which requires Winland to repair or replace defective product at no cost to the customer or refund the purchase price. The reserve reflecting historical experience and potential warranty issues is determined based on specific experience factors including rate of return by item, average weeks outstanding from sale to return, average cost of repair and relation of repair cost to original sales price. Any specific known warranty issues are considered individually. These are analyzed to determine the probability and the amount of financial exposure, and a specific reserve is established. The allowance for rework and warranty costs was \$15 at both September 30, 2013 and December 31, 2012, respectively.

Note 6. Stock-Based Awards

On August 22, 2013, the Company's Board of Directors approved the issuance of 36,362 shares of common stock at a value of \$0.66 per share to directors Matthew Houk and Thomas Braziel per the director fee schedule for services from the shareholder meeting held in May 2013 to the next shareholder meeting. For the three months ended September 30, 2013, the Company recognized approximately \$5 of compensation expense associated with these shares. The remaining compensation expense of \$19 is shown as part of the balance of prepaid expenses and other assets as of September 30, 2013 and will be recognized over the next three quarters.

Page 7 of 16

Table of Contents

Note 6. Stock-Based Awards (Continued)

On July 1, 2013, the Company granted an option to purchase 30,000 shares of common stock to an employee pursuant to the 2013 Equity Incentive Plan, which had a weighted average grant date fair value of \$0.40 determined by using an expected dividend yield of 0.0 percent, an expected stock volatility of 79.2%, a risk-free interest rate of 0.7% and expected option life of 4.0 years. For the three months ended September 30, 2012, the Company did not grant any options. The Company recognized \$51 and \$120 of compensation expense related to stock options for the three and nine months ended September 30, 2013, respectively, compared to \$36 of compensation expense recognized for the three and nine months ended September 30, 2012.

At September 30, 2013, there was \$140 of unrecognized compensation cost related to share-based payments.

The following table summarizes information about stock options outstanding at September 30, 2013:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---|---------------------------------|
| | Number of Shares | Weighted-Average Contractual Life (Years) | Weighted-Average Exercise Price | Number of Shares | Weighted-Average Contractual Life (Years) | Weighted-Average Exercise Price |
| \$0.448 - \$0.896 | 663,000 | 8.6 | \$ 0.70 | 193,000 | 6.7 | \$ 0.63 |
| \$0.896 - \$1.792 | 16,500 | 4.6 | 1.74 | 16,500 | 4.6 | 1.74 |
| \$1.792 - \$2.240 | 5,500 | 4.3 | 2.23 | 5,500 | 4.3 | 2.23 |
| \$2.240 - \$3.584 | 5,500 | 3.7 | 3.25 | 5,500 | 3.7 | 3.25 |
| | 690,500 | 8.4 | \$ 0.76 | 220,500 | 6.4 | \$ 0.81 |

Note 7. Income Taxes

The Company calculates its income tax expense by estimating the annual effective tax rate and applying that rate to the year-to-date ordinary income (loss) at the end of the period. The Company 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.

As of September 30, 2013 and 2012, the Company calculated its estimated annualized effective tax rate at 0% and 0%, respectively as the Company provided a full valuation allowance on deferred tax assets. The Company had no income tax expense on its \$1,909 pre-tax loss from continuing operations for the nine months ended September 30, 2013. The Company had no income tax expense on its \$478 pre-tax loss from continuing operations for the nine months ended September 30, 2012.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

The years 2010 through 2012 remain open for examination by the IRS and other state agencies.

The Company recognizes interest accrued on uncertain tax positions as well as interest received from favorable tax settlements within interest expense. The Company recognizes penalties accrued on unrecognized tax benefits within general and administrative expenses. As of September 30, 2013 and 2012, the Company recognized no interest or penalties related to uncertain tax positions.

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

Page 8 of 16

Table of Contents

Note 8. Discontinued Operations

On November 27, 2012, Winland executed a Purchase Agreement with Nortech Systems, Inc. (“Nortech”) to sell the Company’s building and land. Winland and Nortech executed the closing documents on December 31, 2012 with the funds placed in to escrow with North American Title Company. Winland received the funds on January 8, 2013.

The assets were not classified as non-current discontinued assets prior to the sale of the assets on December 31, 2012, as the Company received significant cash flows from the asset group until the sale date.

As a result of the sale of the land and building on December 31, 2012, the Company determined it would not have any significant continuing involvement in the operations of the asset group after the disposal date and, therefore, reclassified the operations presented as discontinued operations.

For the three and nine months ended September 30, 2012, the Company reclassified rental revenue of \$65 and \$196, respectively as discontinued operations.

Table of Contents

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2: OPERATIONS

EXECUTIVE SUMMARY

Winland Electronics is a leader in designing and selling critical environmental monitoring solutions. We sell our solutions to customers around the world through a channel of distributors and security systems integrators.

Our solutions assist customers by helping them to: reduce product loss, comply with various regulations, reduce labor costs and potentially mitigate costly litigation.

Our solutions include:

The EnviroAlert (EA) product line represents approximately 48% of our revenue. The EA product line offers industrial, commercial and residential users the flexibility to simultaneously monitor temperature, humidity, water, gases, pressure and dry contacts in one or more critical environments. This product line includes our recently introduced EA800-ip solution, an industry-leading monitoring system that via software provides two-way access for users to remotely monitor, collect and view real-time data from up to eight sensors. Users can also modify their sensor settings via a wireless connection that eliminates the need for on-site adjustments or service calls.

The WaterBug Alert, which is designed for dependable water detection.

The TempAlert solution delivers reliable and economical temperature detection for residential or commercial security systems.

The HumidAlert solution monitors humidity and is ideal for any areas where too much moisture, or not enough, can damage commercial and residential property.

The Vehicle-Alert allows users to know when a vehicle enters a driveway or comes to a business drive up window.

The Vehicle-Alert product line was discontinued during the third quarter of 2013.

Key markets that we sell our solution into include the distribution and retail segments of the food, healthcare and drug industries.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2013 vs.
Three and nine months ended September 30, 2012

The Company reported a net loss of \$669,000 or \$0.18 per basic and diluted share for the three months ended September 30, 2013 compared to a net loss of \$114,000 or \$0.03 per basic and diluted share for the same period in 2012. For the nine months September 30, 2013, the Company reported a net loss of \$1,909,000 or \$0.51 per basic and diluted share compared to a net loss of \$282,000 or \$0.08 per basic and diluted share for the same period in 2012.

Net Sales

Net sales for the three months ended September 30, 2013 were \$977,000, down \$164,000 from the same period in 2012. Net sales for the nine months ended September 30, 2013 were \$2,719,000, down \$48,000 from the same period in 2012. These decreases were primarily related to a non-recurring project sale to the Company's largest customer in the three months ended September 30, 2012.

Operating Loss

In January 2013, the Company announced its strategic growth plan to become a leading provider of real-time, cloud-based environmental monitoring solutions by implementing a Software as a Service (SaaS) business model. For the nine months ended September 30, 2013, the Company expensed approximately \$900,000 for sales, marketing and channel management resources and development of the Company's SaaS platform. This plan calls for investments of approximately \$300,000 in additional sales, marketing and channel management resources and development of the Company's SaaS platform for the balance of 2013. The approximately \$900,000 of expenses to date as noted above are contained in the following discussion of the Company's operating loss for the periods ended September 30, 2013.

Page 10 of 16

Table of Contents

The Company reported an operating loss of \$669,000 for the three months ended September 30, 2013 compared to an operating loss of \$191,000 for the same period in 2012. Gross margins were 29.0% for the three months ended September 30, 2013 which were consistent with the 28.9% gross margins for the three months ended September 30, 2012. The Company reported an operating loss of \$1,914,000 for the nine months ended September 30, 2013 compared to an operating loss of \$494,000 for the same period in 2012. Gross margins increased from 28.8% to 30.7% for the nine months ended September 30, 2013 compared to the same period in 2012.

General and Administrative expenses were \$377,000 for the three months ended September 30, 2013, an increase of \$100,000 compared to the same time period a year ago. The increase was due to increased salaries and benefits expenses of \$90,000 related to new employees, increased professional fees of \$47,000 related to the Company's new strategic plan, stock-based compensation expense of \$24,000 related to stock options issued to the Company's chief executive officer and chief financial officer and board of directors, increased travel expenses of \$10,000 and increased rent expenses of \$13,000 related to the Company's office located in Minnetonka, MN partially offset by non-recurring strategic business project expense of \$103,000. General and Administrative expenses were \$1,106,000 for the nine months ended September 30, 2013, an increase of \$545,000 compared to the same time period a year ago. The increase was due to increased salaries and benefits expenses of \$293,000 related to new employees, increased professional fees of \$146,000 related to the Company's new strategic plan, stock-based compensation expense of \$57,000 related to stock options issued to the Company's chief executive officer and chief financial officer and board of directors, increased travel expenses of \$38,000 and increased rent expenses of \$29,000 related to the Company's office located in Minnetonka, MN.

Sales and marketing expenses were \$361,000 for the three months ended September 30, 2013, an increase of \$177,000 compared to the same time period a year ago. The increase was primarily due to \$129,000 for the development of brand and marketing strategies and increased salaries and benefits expenses of \$36,000 related to new employees.

Sales and marketing expenses were \$871,000 for the nine months ended September 30, 2013, an increase of \$334,000 compared to the same time period a year ago. The increase was primarily due to \$286,000 for the development of brand and marketing strategies and increased trade show expenses of \$35,000.

The Company funded research and development activities incurring expenses of \$214,000 for the three months ended September 30, 2013 compared to \$60,000 for the same time period a year ago. These expenses were primarily for continued product development expenses of \$115,000 related to the Company's EnviroAlert EA800-ip and salary and benefit expenses of \$91,000. The Company funded research and development activities incurring expenses of \$771,000 for the nine months ended September 30, 2013 compared to \$194,000 for the same time period a year ago.

These expenses were primarily for continued product development expenses of \$607,000 related to the Company's EnviroAlert EA800-ip and salary and benefit expenses of \$138,000.

Income Tax

As discussed in Note 7 to the Condensed Financial Statements, income tax benefits were calculated using an estimated annual blended federal and state income tax rate of 0% for both the nine month periods ended September 30, 2013 and 2012 as the Company provided a full valuation allowance on deferred tax assets.

The Company had no income tax expense on its \$1,909,000 pre-tax loss from continuing operations for the nine months ended September 30, 2013. The Company had no income tax expense on its \$478,000 pre-tax loss from continuing operations for the nine months ended September 30, 2012.

Discontinued Operations

On November 27, 2012, Winland executed a Purchase Agreement ("Agreement") with Nortech Systems, Inc. ("Nortech") to sell the Company's building and land. Winland and Nortech executed the closing documents on December 31, 2012

with the funds placed in to escrow with North American Title Company. Winland received the funds on January 8, 2013.

The assets were not classified as non-current discontinued assets prior to the sale of the assets on December 31, 2012, as the Company received significant cash flows from the asset group until the sale date. As a result of the sale of the land and building on December 31, 2012, the Company determined it would not have any significant continuing involvement in the operations of the asset group after the disposal date and, therefore, reclassified the operations presented as discontinued operations.

Table of Contents

The effect of this reclassification was to record rental revenue of \$65,000 and \$196,000, respectively as discontinued operations for the three and nine months ended September 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities used cash of \$1,619,000 for the nine months ended September 30, 2013 the result of the net loss of \$1,909,000, increases in prepayments for unamortized director fees of \$90,000, annual software agreements of \$23,000 and annual business insurance of \$11,000, and a decrease in accounts payable due to the timing of purchases and payments of inventories which resulted in a decrease in accounts payable of \$48,000. The uses of cash were partially offset by a decrease in accounts receivable of \$42,000 due to the timing of invoicing and collecting on sales made. Inventory also decreased by \$225,000 as the Company has been focusing on reducing inventory on hand, and sold inventory in excess of purchases during the first nine months of the year. Operating activities used cash of \$672,000 for the nine months ended September 30, 2012 the result of the net loss of \$282,000, sales in excess of collection of accounts receivable balances of \$229,000, payment of accounts payable balances of \$72,000 related to inventory purchases and increased finished goods balance of \$65,000.

Investing activities provided cash of \$2,562,000 for the nine months ended September 30, 2013 as a result of collecting \$2,641,000 held in escrow from the sale of the Company's building. Investing activities used cash of \$79,000 to acquire capital equipment for the nine months ended September 30, 2013. Investing activities used cash of \$5,000 to acquire capital equipment for the nine months ended September 30, 2012.

The current ratio was 4.3 to 1 at September 30, 2013 and 7.6 to 1 at December 31, 2012. Working capital equaled \$2,045,000 on September 30, 2013, compared to \$3,894,000 on December 31, 2012.

The Company's future capital requirements will depend on many factors, including the timing and amount of its revenues and its investment decisions, which may affect the Company's ability to generate additional cash. The Company's management believes that its cash balance and existing working capital will be adequate to fund its cash requirements for at least the next twelve months.

However, delays in, or changes to any of the above plans, and any additional unforeseen issues and circumstances, could result in the Company needing additional financing, which may not be available to the Company, or may not be available on terms favorable to the Company.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-Q 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," "possible," "plan," "project," "show," "forecast" and similar words or expressions. Winland's forward-looking statements generally relate to it increasing market awareness for its products, growth strategies, financial results, sales levels, sales efforts, investments in sales and marketing and the 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. 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 its forward-looking statements 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.

Please refer to forward-looking statements as previously disclosed in Winland's annual report on Form 10-K for fiscal year ended December 31, 2012.

Page 12 of 16

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2013, the end of the period covered by this report, management, including the Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of such date. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2013.

Changes in Internal Control.

During the interim reporting periods March 31, June 30 and September 30, 2012, the Company's Chief Financial Officer prepared the financial statements with Winland's Audit Committee Chair providing a secondary review due to the Company not having a Chief Executive Officer. Upon the hiring of the Chief Executive Officer in December 2012, the Chief Executive Officer provided a secondary review of the financials for the three months ended December 31, 2012, March 31, 2013, June 30, 2013 and September 30, 2013 as prepared by the Company's Chief Financial Officer. This process may be deemed a change in the Company's internal control over financial reporting during the period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Page 13 of 16

Table of Contents

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Our common stock was delisted from the NYSE Amex Exchange and investors may have difficulty trading and obtaining quotations for our common stock, which could impair their investments and our business.

On March 6, 2013 we were informed by the NYSE Amex Exchange that our common stock would be delisted from trading on the NYSE Amex Exchange. Our common stock was immediately eligible for quotation on the OTC Bulletin Board and began trading on the OTC Bulletin Board as of the open of business on March 21, 2013. The OTC Bulletin Board symbol of our common stock is WELX. Because our common stock was delisted from the NYSE Amex Exchange, the liquidity of our common stock may be impaired and access to the capital markets, if necessary, may not be possible. An investor may find it difficult to dispose of, or to obtain accurate quotations of the price of, shares of our common stock. The lack of an established trading market limits the liquidity of our common stock, and could depress the market price of our common stock and limit our ability to raise additional capital.

Effective April 15, 2013, our previous ticker symbol WEX was granted by the NYSE Amex Exchange to a company by the name of WEX, Inc. Do not confuse our prior ticker symbol of WEX with our current and correct ticker symbol on the OTC Bulletin Board of WELX.

For additional risk factors, please refer to those previously disclosed in the Company's annual report on Form 10-K for fiscal year ended December 31, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See Exhibit Index following the signature page.

Page 14 of 16

Table of Contents

SIGNATURES

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

WINLAND ELECTRONICS, INC.
("Company")

Dated: November 8, 2013 /s/ David A. Gagne
David A. Gagne
Chief Executive Officer
(Principal Executive Officer)

Page 15 of 16

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

EXHIBIT INDEX TO FORM 10-Q

For the fiscal quarter ended September 30, 2013

Commission File No.
1-15637

WINLAND ELECTRONICS, INC.

| Exhibit No. | Description |
|-------------|--|
| <u>31.1</u> | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 * |
| <u>31.2</u> | Certification of Chief Financial Officer and Senior Vice President Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 * |
| <u>32.1</u> | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 * |
| <u>32.2</u> | Certification of Chief Financial Officer and Senior Vice President Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 * |
| 101.INS | XBRL Instance Document * |
| 101.SCH | XBRL Taxonomy Extension Schema Document * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document * |

* Furnished herewith