

WINLAND ELECTRONICS, INC.

1950 Excel Drive, Mankato, Minnesota 56001

Interim Report

June 30, 2014

Item 1 The exact name of the Issuer and its predecessors (if any)

Winland Electronics, Inc.

Item 2 The Issuers principal place of office:

1950 Excel Drive
Mankato, MN 56001

Phone: (507) 625-7231
Fax: (507) 387-2488

State of Incorporation: Minnesota, October 1972

Item 3 Security Information

Common Stock

Symbol:	WELX
CUSIP:	974241101

Par Value:	\$0.01
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Total Shares Authorized:	20,000,000	As of: June 30, 2014
Total Shares Outstanding:	3,789,522	As of: June 30, 2014

Transfer Agent

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
Office: 800-866-1340 ext 2673

Registered under the Exchange Act and regulated by the SEC.

Item 4 Issuance History

N/A

Item 5

FINANCIAL STATEMENTS

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

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 792	\$ 741
Accounts receivable, less allowance for doubtful accounts of \$7 as of both June 30, 2014 and December 31, 2013 (Note 2)	441	509
Inventories (Note 4)	334	366
Prepaid expenses and other assets	<u>50</u>	<u>98</u>
Total current assets	1,617	1,714
Property and Equipment, at cost		
Property and equipment	336	339
Less accumulated depreciation and amortization	<u>252</u>	<u>243</u>
Net property and equipment	84	96
Long-term inventories (Note 4)	<u>56</u>	<u>56</u>
Total assets	<u>\$ 1,757</u>	<u>\$ 1,866</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 206	\$ 277
Accrued liabilities:		
Compensation	28	130
Other	<u>37</u>	<u>68</u>
Total current liabilities	<u>271</u>	<u>475</u>
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 both June 30, 2014 and December 31, 2013	38	38
Additional paid-in capital	5,123	5,123
Accumulated deficit	<u>(3,675)</u>	<u>(3,770)</u>
Total stockholders' equity	<u>1,486</u>	<u>1,391</u>
Total liabilities and stockholders' equity	<u>\$ 1,757</u>	<u>\$ 1,866</u>

See Notes to Condensed Financial Statements

WINLAND ELECTRONICS, INC.
CONDENSED STATEMENTS OF OPERATIONS
(In Thousands, Except Share and Per Share Data)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales (Note 2)	\$ 891	\$ 869	\$ 1,855	\$ 1,742
Cost of sales	595	587	1,237	1,191
Gross profit	296	282	618	551
Operating expenses:				
General and administrative	150	430	371	729
Sales and marketing	75	284	140	510
Research and development	7	323	11	557
Total operating expenses	232	1,037	522	1,796
Operating income (loss)	64	(755)	96	(1,245)
Other income (loss)	-	-	(1)	5
Net income (loss)	\$ 64	\$ (755)	\$ 95	\$ (1,240)
Income (loss) per common share data:				
Basic and diluted	\$ 0.02	\$ (0.20)	\$ 0.03	\$ (0.33)
Weighted-average number of common shares outstanding:				
Basic and diluted	3,789,522	3,732,208	3,789,522	3,717,004

See Notes to Financial Statements

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

	For the Six Months Ended June 30,	
	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities		
Net income (loss)	\$ 95	\$ (1,240)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	16	11
Non-cash stock based compensation	-	69
Changes in assets and liabilities:		
Accounts receivables	68	57
Inventories	32	193
Prepaid expenses	48	(104)
Accounts payable	(71)	(103)
Accrued expenses, including deferred revenue	(133)	82
Net cash provided by (used in) operating activities	<u>55</u>	<u>(1,035)</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(5)	(50)
Receipt of funds held in escrow	-	2,641
Proceeds from sale of property and equipment	1	-
Net cash provided by (used in) investing activities	<u>(4)</u>	<u>2,591</u>
Net increase in cash and cash equivalents	51	1,556
Cash and cash equivalents		
Beginning	741	390
Ending	<u>\$ 792</u>	<u>\$ 1,946</u>

See Notes to Condensed Financial Statements

Item 5 FINANCIAL STATEMENTS (Continued)

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. 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 three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The condensed balance sheet at December 31, 2013 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, 2013.

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.

Note 2. Major Customers

The Company has two customers that accounted for 10 percent (10%) or more of net sales for the three and six months ended June 30, 2014 and 2013 as follows:

Sales percentage:	For the Three Months Ended June 30,	
	2014	2013
Customer A	53%	50%
Customer B	11%	12%
Sales percentage:	For the Six Months Ended June 30,	
	2014	2013
Customer A	51%	49%
Customer B	11%	13%

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

Accounts receivable percentage:	June 30,	
	2014	2013
Customer A	52%	51%
Customer B	19%	20%

Note 3. Income (loss) per Common Share

Income (loss) per common share: Basic income (loss) per common share is computed by dividing the net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted income (loss) per common share is computed by dividing the net income (loss) by the weighted-average number of common shares outstanding during the period, including potentially dilutive shares such as the options and warrants to purchase shares of common stock at various amounts per share (see Note 6).

Item 5 FINANCIAL STATEMENTS (Continued)**Note 3. Income (loss) per Common Share (Continued)**

For the three and six months ended June 30, 2014 and 2013, the diluted income (loss) per share was the same as basic income (loss) per share since the effects of options and warrants would have been anti-dilutive. The diluted share calculation excluded 273,000 and 726,000 weighted average shares for the three months ended June 30, 2014 and 2013, respectively, as inclusion of these shares would have been anti-dilutive.

Note 4. Inventories

The components of inventories were as follows net of reserves:

	June 30, 2014	December 31, 2013
Raw materials	\$ 47	\$ 16
Finished goods	343	406
Total, net	<u>\$ 390</u>	<u>\$ 422</u>

As of June 30, 2014 and December 31, 2013, \$56 represents long-term inventories, net that the Company does not expect to sell within the next twelve months and do not consider these items excess or obsolete.

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 June 30, 2014 and December 31, 2013, respectively.

Note 6. Stock-Based Awards

At June 30, 2014, there was \$7 of unrecognized compensation cost related to share-based payments.

The following table summarizes information about stock options outstanding at June 30, 2014:

Range of Exercise Prices	Number of Shares	Options Outstanding		Weighted-Average Exercise Price	Options Exercisable	
		Weighted-Average Remaining Contractual Life (Years)			Number of Shares	Weighted-Average Exercise Price
\$0.448 - \$1.344	243,000	5.8	\$	0.63	205,500	\$ 0.63
\$1.344 - \$1.792	16,500	3.9		1.74	16,500	1.74
\$1.792 - \$2.240	5,500	3.5		2.23	5,500	2.23
\$2.240 - \$3.584	5,500	2.9		3.25	5,500	3.25
	<u>270,500</u>	<u>5.6</u>	<u>\$</u>	<u>0.78</u>	<u>233,000</u>	<u>\$ 0.81</u>

Note 7. Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a tax valuation allowance when it is more likely than not that it will not be able to recover the value of its deferred tax assets. The tax effect of the Company's valuation allowance for deferred tax assets is included in the annual effective tax rate. The full valuation allowance for deferred tax assets as of December 31, 2013 was \$2,743.

Item 5 FINANCIAL STATEMENTS (Continued)

Note 7. Income Taxes (Continued)

The Company calculates its income tax expense by estimating the annual effective tax rate and applying that rate to the year-to-date ordinary income (loss) at the end of the period. As of June 30, 2014 and 2013, 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 \$95 pre-tax income from continuing operations for the six months ended June 30, 2014. The Company had no income tax expense on its \$1,240 pre-tax loss from continuing operations for the six months ended June 30, 2013.

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 2013 remain open for examination by the IRS and other state agencies.

The Company recognizes interest accrued on uncertain tax positions as well as interest received from favorable tax settlements within interest expense. The Company recognizes penalties accrued on unrecognized tax benefits within general and administrative expenses. As of June 30, 2014 and 2013, the Company recognized no interest or penalties related to uncertain tax positions.

At December 31, 2013, the Company had net operating loss carryforwards for federal purposes of \$6,712 and \$4,660 for state income tax purposes that are available to offset future taxable income and begin to expire in the year 2022. At December 31, 2013, the Company had Minnesota research and development tax credit carryforwards of \$12, which begin to expire in the year 2022.

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

Item 6 Nature of the Issuer's Business**A. A description of the issuer's business operations;**

Winland markets and sells its line of proprietary critical condition monitoring products primarily through an established network of distributors, dealers, security installers and integrators. In most cases, these products are manufactured to protect against loss of assets due to damage from water, excess humidity, extremes of temperature and loss of power.

B. Date and State of Incorporation

Issuer is a Corporation incorporated in the State of Minnesota in 1972.

C. The Issuer's Primary SIC Code:

SIC Code	3823
NAICS Code	334513

D. The Issuer's Fiscal Year End Date:

Fiscal year end is December 31st

E. Principal Products or Services, And Their Market:

Through distribution to dealers and integrators, Winland provides a line of proprietary critical condition monitoring products to the security industry. In most cases, these products are manufactured to protect against loss of assets due to damage from water, excess humidity, extremes of temperature and loss of power. Winland holds federal trademark registrations for marks used in its business as follows: WATERBUG, TEMP ALERT and ENVIROALERT.

Item 7 Issuer's Facilities

The Company currently occupies 1,924 square feet of office space at 1950 Excel Drive, Mankato, MN which is leased on a month-to-month basis from Nortech Systems, Incorporated.

Item 8 Officers, Directors and Control Persons**A. Names of Officers, Directors and Control Persons.**

<u>Name of Director/Nominee</u>	<u>Age</u>	<u>Current Position With Winland Electronics, Inc.</u>	<u>Director Since</u>
Brian D. Lawrence	44	Chief Financial Officer and Senior Vice President	
Lorin E. Krueger	58	Director	1983
Thomas J. Brady	49	Director	2008
Thomas Braziel	30	Director	2013
Matthew D. Houk	32	Director	2013

B. Legal – Disclaimer History

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other misdemeanor offenses);

None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
None.

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the SEC, the CFTC, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
None.

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.
None.

C. Beneficial Shareholders

The following table provides information as of July 25, 2014 concerning the beneficial ownership of our Common Stock by (i) the persons known by us to own more than 5% of our outstanding Common Stock, (ii) each of our directors, (iii) the named executive officers and (iv) all current executive officers and directors as a group. Except as otherwise indicated, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock owned by them. As of July 25, 2014, there were 3,789,522 shares of our Common Stock issued and outstanding.

Name (and Address of 5% Owner) or Identity of Group	Number of Shares Beneficially Owned(1)		Percent of Class (1)
Thomas Braziel	485,567	(2)	12.80%
Brian B. Hirschmann	351,320	(3)	9.30%
Karen M. Hirschmann	346,793	(4)	9.20%
Matthew D. Houk	317,025	(5)	8.40%
David B. Houk	191,005	(6)	5.00%
Lorin E. Krueger	137,679	(7)	3.60%
Thomas J. Brady	91,143	(8)	2.40%
Brian D. Lawrence	12,500	(9)	*
All Executive Officers and Directors as a Group (5 Individuals)	1,043,914	(10)	27.50%

* Less than 1%

- (1) Under the rules of the SEC, shares not actually outstanding are deemed to be beneficially owned by an individual if such individual has the right to acquire the shares within 60 days. Pursuant to such SEC Rules, shares deemed beneficially owned by virtue of an individual's right to acquire them are also treated as outstanding when calculating the percent of the class owned by such individual and when determining the percent owned by any group in which the individual is included.
- (2) According to a Form 4 filed with the Securities and Exchange Commission on June 5, 2014 by BE Capital Management LP, BE Capital Partners LLC, Thomas Braziel and David Earls, the shares are beneficially owned by Mr. Braziel who has sole power to vote or to dispose of such shares. The address for BE Capital Partners LLC is 211 East 70th Street, Apt 10F, New York, NY, 10021.
- (3) According to a Schedule 13G/A filed with the Securities and Exchange Commission on June 30, 2014 by Brian B. Hirschmann, the shares are beneficially owned by Mr. Hirschmann who has sole power to vote or to dispose of such shares. The address for Brian B. Hirschmann is 612 S Flower St, #710, Los Angeles, CA, 90017.
- (4) According to a Schedule 13G/A filed with the Securities and Exchange Commission on July 1, 2014

by Karen M. Hirschmann, the shares are beneficially owned by Ms. Hirschmann who has sole power to vote or to dispose of such shares. The address for Karen M. Hirschmann is 515 S Figueroa St, Suite 1975, Los Angeles, CA, 90071.

- (5) According to a Form 4 filed with the Securities and Exchange Commission on June 6, 2014 by Matthew D. Houk, the shares are beneficially owned by Mr. Houk who has sole power to vote or to dispose of such shares. The address for Matthew D. Houk is c/o Horizon Kinetics LLC, 470 Park Avenue South, 4th Floor, New York, New York 10016.
- (6) According to a Schedule 13D filed with the Securities and Exchange Commission on December 19, 2013 by David B. Houk, the shares are beneficially owned by Mr. Houk who has sole power to vote or to dispose of such shares. The address for David B. Houk is P.O. Box 22145, Louisville, Kentucky 40252.
- (7) Includes 46,500 shares which may be purchased by Mr. Krueger upon exercise of currently exercisable options.
- (8) Includes 12,000 shares held by Mr. Brady's spouse and 62,000 shares which may be purchased by Mr. Brady upon exercise of currently exercisable options.
- (9) Includes 12,500 shares which may be purchased by Mr. Lawrence upon exercise of currently exercisable options.
- (10) Includes 121,000 shares which may be purchased by the executive officer and directors upon exercise of currently exercisable options.

Item 9

Third Party Providers

The name, address, telephone number and email address of each of the following outside providers that advise the issuer on matters relating to the operations, business development and disclosure:

1. Investment Banker:

None

2. Promoters:

None

3. Counsel:

Fredrikson & Byron, P.A.
Suite 4000
200 South Sixth Street
Minneapolis, MN 55402-1425
Phone: (612) 492-7000

4. Accountant or Auditor:

Baker Tilly Virchow Krause, LLP
225 South Sixth Street
Suite 2300
Minneapolis, MN 55402-4661
Phone: (612) 876-4802

5. Public Relations Consultant:

None

Item 9

Third Party Providers (Continued)

6. Investor Relations Consultant:

None

7. Advisory:

None

Item 10 Issuer's Certification

To Whom It May Concern:

I, Brian Lawrence, Chief Financial Officer and Senior Vice President, certify that:

1. I have reviewed this disclosure statement of Winland Electronics, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

Dated: July 28, 2014

/s/ Brian D. Lawrence
Brian D. Lawrence
Chief Financial Officer and Senior Vice President