WINLAND ELECTRONICS INC
Form 10QSB
May 14, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the Quarter Ended March 31, 2003 Commission File Number:0-18393

WINLAND ELECTRONICS, INC.

(Name of small business issuer in its charter)

Minnesota	**41-0992135**
(state or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1950 Excel Drive, Mankato, Minnesota 56001

(Address of principal executive offices)

(507) 625-7231

(Issuer s telephone number)

There were 2,989,984 shares of Common Stock, $.01 par value, outstanding as of May 13, 2003.

Transitional Small Business Disclosure Format (check one): Yes o No x

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PART I-FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

WINLAND ELECTRONICS, INC.
BALANCE SHEETS

ASSETS	March 31, 2003	December 31, 2002
	(UNAUDITED)	
Current Assets		
Cash	$ 966,780	$ 692,700
Accounts receivable, net	2,730,634	2,091,544
Inventories	1,851,462	1,811,644
Prepaid expenses	219,496	145,035
Deferred Taxes	186,000	186,000
Total current assets	5,954,372	4,926,923
Other Assets	19,966	590
Total other assets	19,966	590
Property and Equipment, at cost:		
Land and land improvements	272,901	272,901
Building	2,983,586	2,983,586
Machinery and equipment	3,775,208	3,735,832
Data processing equipment	1,282,398	1,265,396
Office furniture and equipment	332,708	352,834
Total property and equipment	8,646,801	8,610,549
Less accumulated depreciation	(4,726,716)	(4,556,721)
Net property and equipment	3,920,085	4,053,828
Total assets	$ 9,894,423	$ 8,981,341

See Notes to the Interim Financial Statements

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WINLAND ELECTRONICS, INC.
BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY	March 31, 2003	December 31, 2002
	(UNAUDITED)	
Current Liabilities		
Current maturities of long-term debt	$ **401,350**	$ 413,546
Accounts payable	**1,472,261**	931,933
Accrued expenses:		
Compensation	**436,766**	524,088
Other	**271,151**	151,548
Income tax payable	**208,807**	159,028
Total current liabilities	**2,790,335**	2,180,143
Long Term Liabilities		
Deferred revenue	**176,923**	178,958
Long-term debt, less current maturities	**2,000,839**	2,098,083
Total long-term liabilities	**2,177,762**	2,277,041
Total liabilities	**4,968,097**	4,457,184
Stockholders Equity		
Common stock	**29,782**	29,782
Warrants	**43,178**	
Additional paid-in capital	**2,264,710**	2,264,710
Retained earnings	**2,588,356**	2,229,665
Total stockholders equity	**4,926,026**	4,524,157
Total liabilities and stockholders equity	**$9,894,123**	$8,981,341

See Notes to the Interim Financial Statements

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WINLAND ELECTRONICS, INC.
STATEMENTS OF INCOME
For the Three Months Ended March 31, 2003 and 2002
(UNAUDITED)

	2003	2002
Net sales	**$5,443,154**	$4,285,647
Cost of sales	**4,028,911**	3,200,079
Gross profit	**1,414,243**	1,085,568
Operating expenses:		
General and administrative	**379,093**	303,242
Sales and marketing	**231,919**	236,037
Research and development	**196,437**	148,781
	807,449	688,060
Operating income	**606,794**	397,508
Other income (expenses):		
Interest expense	**(43,330)**	(78,768)
Other, net	**227**	11,333
	(43,103)	(67,435)
Income before income taxes	**563,691**	330,073
Income tax expense	**(205,000)**	(49,000)
Net income	**$ 358,691**	$ 281,073
Earnings per share data:		
Basic	**$ 0.12**	$ 0.09
Diluted	**0.12**	0.09
Weighted-average number of common shares outstanding:		
Basic	**2,978,160**	2,959,842
Diluted	**3,049,061**	2,982,802

See Notes to the Interim Financial Statements

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WINLAND ELECTRONICS, INC.
STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2003 and 2002
(UNAUDITED)

	2003	2002
Cash Flows From Operating Activities		
Net income	**$ 358,691**	$ 281,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**176,808**	197,523
Loss on disposal of equipment	**641**	433
Investor relations expense, warrants issued	**2,425**	
Changes in assets and liabilities:		
Accounts receivable	**(639,090)**	41,772
Income tax receivable		49,163
Inventories	**(39,818)**	30,403
Prepaid expenses	**(52,872)**	(15,914)
Accounts payable	**540,328**	201,740
Accrued expenses, including deferred revenue	**80,025**	22,590
Net cash provided by operating activities	**427,138**	808,783
Cash Flows From Investing Activities		
Purchases of property and equipment	**(43,618)**	(9,749)
Net cash used in investing activities	**(43,618)**	(9,749)
Cash flows From Financing Activities		
Net payments on revolving credit agreement		(720,000)
Payments on long-term borrowings, including capital lease obligations	**(109,440)**	(156,563)
Net cash used in financing activities	**(109,440)**	(876,563)
Net increase (decrease) in cash	**274,080**	(77,529)
Cash		
Beginning	**692,700**	399,749
End	**$ 966,780**	$ 322,220
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	**$ 42,815**	$ 79,030
Income tax	**157,421**	1,250
Supplemental Schedule of Noncash Financing Activities		
Warrants Issued in Connection with Investors Relations		
Services to be Provided	**$ 43,178**	$

See Notes to the Interim Financial Statements

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WINLAND ELECTRONICS, INC.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation

The accompanying unaudited financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission. In management s opinion all adjustments necessary for a fair presentation of the results for the interim period have been reflected in the interim financial statements. The results of operations for any interim period are not necessarily indicative of the results for a full year. All adjustments to the financial statements are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted. Such disclosures are those that would substantially duplicate information contained in the most recent audited financial statements of the Company, such as significant accounting policies, lease and license commitments and stock options. Management presumes that users of the interim statements have read or have access to the audited financial statements included in the Company s most recent annual report on Form 10-KSB.

Note 2. Inventories

Major components of inventory at March 31, 2003 and December 31, 2002 as follows:

	March 31, 2003	December 31, 2002
Raw Materials	$1,220,426	$1,462,315
Work In Process	147,065	138,663
Finished Goods	715,971	395,666
Obsolescence reserve	(232,000)	(185,000)
Total	$1,851,462	$1,811,644

Note 3. Financing Arrangement

The Company accepted a loan proposal and commitment from M&I Bank of Minneapolis, Minnesota for a $2,500,000 revolving line-of-credit agreement to replace the previous $2,500,000 line-of-credit with Wells Fargo Bank that matured on March 31, 2003. There were no advances outstanding on the revolving line-of-credit agreement at March 31, 2003 or December 31, 2002. The Company s Board of Directors approved the change in banking relationships to M&I Bank. The Company believes M&I Bank will be a strong banking partner that will provide the flexibility and commitment the Company requires for adequate financing to meet its future needs.

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Note 4. Major Customers and Enterprisewide Disclosures

Major Customers: The Company has customers which accounted for more than 10 percent of net sales for the three months ended March 31, 2003 and 2002, as follows:

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Sales percentage:		
Customer A	52%	51%
Customer B	21%	16%

The Company has customers that accounted for more than 10% of net receivables at March 31, 2003 and December 31, 2002, as follows:

	March 31, 2003	December 31, 2002
Accounts receivable percentage:		
Customer A	51%	34%
Customer B	22%	17%

Enterprisewide Disclosures: The following table presents three month revenues from external customers for each of the Company s groups of products and services:

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Proprietary microprocessors and mechanically controlled sensors and alarms	$ 673,614	$ 681,083
Electronic controls and assemblies for OEM customers	4,769,540	3,604,564
	$5,443,154	$4,285,647

Note 5. Earnings Per Share

Basic per-share amounts are computed, generally, by dividing net income or loss by the weighted-average number of common shares outstanding. Diluted per-share amounts assume the conversion, exercise, or issuance of all potential common stock instruments unless the effect is antidilutive.

Note 6. Stock Options, Warrants and Stock-Based Compensation Plans

Warrants: On February 19, 2003, the Company granted to Hayden Communications, Inc., an investor relations firm, warrants to purchase 36,000 shares of common stock. Warrants to purchase 9,000 shares of common stock vest in six-month increments during the two-year contractual period and will carry a three-year term from the date of vesting. The contract for services to be provided by Hayden Communications, Inc. does provide for a cancellation clause, by either party to the agreement, thereby limiting the warrants only to those vested up to the time of termination. On March 31, 2003, warrants to purchase 36,000 shares of common stock were outstanding, of which none was exercisable. The exercise price of all outstanding warrants is $2.04 per share.

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The warrants have been valued using the Black-Scholes pricing model. Because the contract is cancelable, the Company is reflecting the value of the warrants as a prepaid expense and amortizing the expense as investor relations expense over the life of the contract. In addition, the total value of the outstanding warrants, $43,178, is reflected in the stockholders equity section at March 31, 2003.

Stock-Based Compensation Plans: At March 31, 2003, the Company had a stock-based compensation plan. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, no stock-based employee compensation cost has been recognized, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. There were no shares issued during the three months ended March 31, 2003, therefore, there was no effect on net income or earnings per share had compensation cost for the stock-based compensation plan been determined based on the grant date fair values of awards (the method described in FASB Statement No. 123, Accounting for Stock-Based Compensation).

	Three Months Ended March 31	
	2003	**2002**
Net income (loss):		
As reported	$358,691	$281,073
Deduct total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(8,173)	(10,660)
Pro forma	$350,518	$270,413
Basic earnings (loss) per share:		
As reported	$ 0.12	$ 0.09
Pro forma	0.12	0.09
Diluted earnings (loss) per share:		
As reported	0.12	0.09
Pro forma	0.12	0.09

Note 8. New Accounting Standards

Recent pronouncements: In September 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 143, Asset Retirement Obligations. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The statement will be effective for the Company s fiscal year ending 2003. Management does not expect the adoption of this standard to have a material impact on the Company s financial statements.

In April 2002, the FASB issued Statement No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendments of FASB Statement No. 13, and Technical Corrections. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

In January 2003, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. This statement provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, this statement also amends the disclosure requirements of SFAS No. 123 to require more prominent and frequent disclosures in the financial statements about the effects of stock-based compensation. The transitional guidance and annual disclosure provisions of this statement was effective for the December 31, 2002 financial statements. The interim reporting disclosure requirements are effective for the Company s March 31, 2003 Form 10-QSB. Because the Company continues to account for employee stock-based compensation under APB Opinion No. 25, the

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transitional guidance of SFAS No. 148 has no effect on the financial statements at this time. The December 31, 2002, and March 31, 2003 financial statements have incorporated the enhanced disclosure requirements of SFAS No. 148, as presented above under the caption Employee Stock Plans.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation establishes standards for identifying a variable interest entity and for determining under what circumstances a variable interest entity should be consolidated with its primary beneficiary. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. Interpretation No. 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or is entitled to receive a majority of the entity s residual returns or both. The requirements of Interpretation No. 46 will apply to the Company for its quarter ending September 30, 2003. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

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ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

RESULTS OF OPERATIONS
Three months ended March 31, 2003 v.
Three months ended March 31, 2002

Net Sales: The Company recorded net sales of $5,443,154 for the three months ended March 31, 2003, an increase of $1,157,507, or 27.0%, from $4,285,647 for the same period in 2002. The increase in sales for the three months ended March 31, 2003 is attributed to significant increases in sales to original equipment manufacture (OEM) customers. Sales of Winland s proprietary products, which include the security/industrial sensors, DC motor controls and utility controls, decreased 1% for the three months ended March 31, 2003, compared to the same period in 2002.

The Company s OEM customers have given the Company purchase orders and forecasts having an aggregate value of $12.8 million for delivery during the remainder of 2003. The Company expects to receive additional orders from current OEM customers for future production. Although the Company has purchase orders in place for may of its OEM customers which are scheduled to be fulfilled in 2003, these customers may terminate their relationship with the Company at any time pursuant to certain cancellation provisions. Therefore, there is no assurance that the Company will continue to be engaged by any of these customers.

The Company has continued to position itself as a full service designer and manufacturer of custom controls and assemblies for OEM customers. The Company continues to explore additional geographic regions to market its OEM services, primarily through networking with referral sources in the Chicago and Minneapolis areas. The loss of any significant OEM customer would likely have an adverse affect on the Company s short-term, and potentially long-term, results.

Gross Profits: Gross profit dollars increased 30% to $1,414,243 or 26.0% of net sales for the three months ended March 31, 2003, compared to $1,085,568 or 25.3% of net sales for the same period in 2002. The increase in gross profit for the quarter ended March 31, 2003 is primarily attributed to the increased sales, as well as the Company s ability to maintain consistent direct and variable indirect expenses. Cost of sales decreased slightly as a percentage of sales for the quarter ended March 31, 2003, however, the actual expense for the period increased $828,832. The increase is primarily attributed to material and labor associated to the additional sales for the period, as well as increased warranty and obsolescence reserves, commissions expense, accrued employee incentive plan expense and the administrative expenses related to the Arrow Electronics, Inc. In Plant Store (IPS), which started in April of 2002. Inventory in the IPS, although located on Company premises, is owned by Arrow Electronics, Inc. and is invoiced to the Company when utilized by the Company in manufacturing. The Company has seen the use of the IPS reduce shipping and carrying costs of inventory.

Operating Expenses: General and administrative expense was $379,093 or 7.0% of net sales for the three months ended March 31, 2003, compared to $303,242 or 7.1% of net sales for the same period in 2002. The actual general and administrative expenses increased $75,851 for the three months ended March 31, 2003 compared to the same period in 2002. The increase is attributed to increased professional fees, salaries and related expenses, employee incentive plan accruals and increased bad debt reserves, offset in part by decreased telephone and investor relations expense.

Sales and marketing expense (including project management) was $231,919 or 4.3% of net sales for the three months ended March 31, 2003, compared to $236,037 or 5.5% of net sales for the same period in 2002, a decrease of $4,118. The decrease in sales and marketing as a percentage of sales is primarily due to holding expenses at 2002 levels as sales increased. The slight decrease was attributed to reduced overall salaries and employee related costs as a result of the reassignment of personnel and lower trade show costs, offset in part by increased employee training expenses, travel and expenses related to the replacement and proposed expansion of the Company s sales force.

Winland s sales and marketing efforts are focused on building long-term relationships with targeted OEM strategic accounts in the markets that it serves. The Company relies on direct sales people along with an extensive referral network to promote its services and uncover new opportunities.

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Management believes that relationships built on networking, referrals and face-to-face contact will provide Winland an opportunity to build market share in the EMS (Electronic Manufacturing Services) market. Winland s proprietary products in the Environmental Sensors and Security Retail sectors are marketed through a network of dealers and distributors and supported by current internal staff.

Research and development expense (including the development of new Company products as well as design services and support to the OEM customer base) was $196,437 or 3.6% of net sales for the three months ended March 31, 2003, compared to $148,781 or 3.5% of net sales for the same period in 2002. The increase in research and development expense for the three months ended March 31, 2003 compared to 2002 is primarily attributable to increased salaries and employee related expenses associated with the reassignment of personnel from 2002 to 2003 and the addition of an engineer in February 2002, employee incentive plan accruals, warranty expense associated with designs for customers, offset in part by a reduction in new product development and consulting expense.

Interest Expense: Interest expense was $43,330 or 0.8% of net sales for the three months ended March 31, 2003, compared to $78,768 or 1.8% of net sales for the same periods in 2002. The decrease in interest expense for the first quarter of 2003 was due to a reduction in short-term and long-term debt. During the first three months of 2003, the Company maintained a zero balance on its revolving line-of-credit and paid down $109,440 of long-term debt. All of the cash used to reduce debt was generated from the Company s operating activities.

Net Earnings: The Company reported net income of $358,691 or $0.12 per basic and diluted share for the three months ended March 31, 2003, compared to net income of $281,073 or $0.09 per basic and diluted share for the first three months of 2002. The net income for the first three months of 2003 is primarily due to increased sales and improved gross profit margins based on a more profitable sales mix and the Company s ability to maintain consistent direct and variable indirect expenses, offset in part by increased operating and income tax expense. Bottom line performance also benefited from reductions in interest expense.

The Company believes inflation has not significantly affected its results of operations.

The Company uses a 37% blended federal and state income tax rate. In 2002, the 37% blended rate was offset, in part, by a tax benefit from the use of net operating losses and tax credits generated in previous years.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was $427,138 for the three months ended March 31, 2003, compared to $808,783 for the same period in 2002, a decrease of $381,645. This change was primarily due to increased receivable levels resulting from higher quarterly and March sales. Additional payables at March 31, 2003 compared to the same time period in 2002 is indicative of the increased material demands to meet increased sales levels. The increased balance in payables only partially offsets the higher receivable balance, thereby creating a net decrease in cash from operations. Cash provided by operations was used to pay down $109,440 of the Company s long-term debt and for the purchase of equipment. The Company has funded its current operations and strengthened its cash position with working capital provided by operations.

The current ratio at March 31, 2003 was 2.13 to 1, compared to 2.26 to 1 at December 31, 2002. Working capital equaled $3,164,037 on March 31, 2003, compared to $2,746,780 on December 31, 2002. The increase in working capital is primarily attributed to increased accounts receivable and cash, offset in part by increased accounts payable and accrued expenses.

The Company accepted a loan proposal and commitment from M&I Bank of Minneapolis, Minnesota for a $2,500,000 revolving line-of-credit agreement to replace the previous $2,500,000 line-of-credit with Wells Fargo Bank that matured on March 31, 2003. There were no advances outstanding on the revolving line-of-credit agreement at March 31, 2003 or December 31, 2002. The Company s Board of Directors approved the change in banking relationships to M&I Bank. The Company believes

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M&I Bank will be a strong banking partner that will provide the flexibility and commitment the Company requires for adequate financing to meet its future needs.

We believe that our cash balance, availability under a new line of credit agreement, and anticipated cash flows from operations will be adequate to fund our cash requirements for fiscal 2003.

A summary of our contractual cash obligations at March 31, 2003 is as follows:

	Payments due by period					
Contractual Obligations	Total	Remainder Of 2003	2004	2005	2006	2007 and thereafter
Long-term debt, including interest	$2,656,700	$380,600	$982,500	$1,129,700	$105,600	$ 58,300
Operating leases	$ 6,000	$ 6,000	0	0	0	0
Total contractual cash obligations	$2,662,700	$386,600	$982,500	$1,129,700	$105,600	$ 58,300

The only off balance sheet contractual cash obligations are the operating leases noted above.

CRITICAL ACCOUNTING POLICIES

The critical accounting policies to follow include, but are not limited to, revenue recognition, income taxes, product warranties, depreciation and long-lived assets. Some of the most critical policies are also discussed below.

The Company derives revenue from primarily two sources: (1) product and out of warranty repair revenue, which includes custom electronic controls and assemblies for original equipment manufacturers and proprietary products in the security/industrial, motor control and GPS markets and (2) engineering design services which may include programming and prototypes. The Company recognizes revenue from the sale of products and out of warranty repairs when the product is shipped by being delivered to a common carrier. Revenue recognition occurs for engineering design services as the progress billings are made and at the conclusion of the project. For all sales, the Company uses either a binding purchase order or customer accepted and signed engineering quote as evidence of the arrangement.

The allowance for doubtful accounts is estimated at $33,000 at March 31, 2003. During the quarter the Company increased the allowance $23,000 based on current expectations with regard to a single customer. The Company has not experienced significant bad debt write offs the last several years, therefore, the current allowance is believed to be adequate for any exposures to loss on March 31, 2003 accounts receivable.

The Company has established a reserve for slow moving and obsolete inventories and believes the reserve of $232,000 at March 31, 2003 is adequate. The reserve is based on an analysis of the existing inventory, including specific identification of obsolete inventory and applying a percentage of the aged inventory 15 months old and older. We believe the obsolete and slow moving inventory allowance includes adequate reserves for any inventory related to the discontinuance of the GPS Antenna products line.

In addition, the Company has established a reserve of $152,000 for rework and warranties. This reserve is based on historical experience and analysis of specific known and potential warranty issues. A portion of the reserve is based on a percentage of the sales for the six-month period ended March 31, 2003. The percentage used reflects historical experience. Specifically identified or potential warranty issues are analyzed to determine the probability and the Company s financial exposure and the reserve is established. The Company believes that the estimated reserve at March 31, 2003 is adequate.

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At March 31, 2003, the financial statements reflect a net deferred tax asset of $186,000. Deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. During the year ended December 31, 2001, the Company recorded a valuation allowance of $315,200, or 100% of the net deferred tax assets. Since 2001 represented the second consecutive loss year, the valuation allowance was established by management due to the difficulties in predicting when the net deferred tax assets would be utilized and the amount of future taxable income that may be generated. Realization of deferred tax assets is dependent on future taxable income during the period that deductible temporary differences and carryforwards are to be available to reduce taxable income. In 2002, because income was at a record high, the Company eliminated the previously recorded valuation allowance as in the opinion of management it is more likely than not that the deferred income tax assets will be realized due to future profitability.

The income tax expense for the twelve months ended December 31, 2002 reflects a reduction of approximately $315,000 over standard tax rates due to the use of credit carryforwards and temporary book/tax differences that were reflected in the deferred tax asset valuation allowance at December 31, 2001. The income tax expense for the three months ended March 31, 2003 reflects a reduction of approximately $73,000.

The Company depreciates property and equipment over its estimated useful life. There were no impairment charges taken for the three months ended March 31, 2003.

CAUTIONARY STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-QSB and other written and oral statements made from time to time by the Company do not relate strictly to historical or current facts. As such, they are considered forward-looking statements which 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, should, will, forecast and similar words or expressions. The Company s fo statements generally relate to the Company s growth strategies, financial results, product development and sales efforts. One must carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions, including, among others, those discussed below. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. As provided for under the Private Securities Litigation Reform Act of 1995, the Company wishes to caution investors that the following important factors, among others, in some cases have affected and in the future could affect the Company 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 the Company.

The Company derives a significant portion of its revenues from a small number of major OEM customers that are not subject to any long-term contracts with the Company. If any major customers should for any reason decrease the volume of their business or stop doing business with the Company, the Company s business would be adversely affected. Some of the Company s customers are not large, well-established companies, and the business of each customer is subject to various risks such as market acceptance of new products and continuing availability of financing. To the extent that the Company s customers encounter difficulties, or the Company is unable to meet the demands of its OEM customers, the Company could be adversely affected.

The Company s ability to increase revenues and profits is dependent upon its ability to retain valued existing customers and obtain new customers that fit its customer profile. The Company competes for new customers with numerous independent contract design and manufacturing firms in the United States and abroad, many of whom have greater financial resources and more established reputations. The Company s ability to compete successfully in this industry depends, in part, upon the price at which the Company is willing to manufacture a proposed product and the quality of the Company s design and manufacturing services. There is no assurance that the Company will be able to continue to obtain contracts from existing and new customers on financially advantageous terms, and the failure to do so could prevent the Company from achieving the growth it anticipates.

The Company s ability to execute its initiatives to increase sales and expand market share depends upon its ability to develop additional value added capabilities and/or proprietary products and technologies and on the availability of sufficient financing, both equity and debt, to meet fixed and variable costs associated with such growth. In the current economic environment, banks and other sources of financing are becoming increasingly conservative in their lending and investment policies. There is no assurance that the Company will be able to obtain the financing necessary to achieve its goals.

The Company s success in providing an improved mix of higher margin products and services depends on the effectiveness of its new product development and planning efforts as well as the timing of such and the availability and costs of any competing products or services on the market.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls Procedures.

The Company s Chief Executive Officer, Lorin E. Krueger, and Chief Financial Officer, Jennifer A. Thompson, have reviewed the Company s disclosure controls and procedures within 90 days prior to filing this report. Based upon this review, these officers believe that the Company s disclosure controls and procedures are effective in ensuring that material information related to the Company that are required to be disclosed is made known to them.

(b) Changes in Internal Controls.

There were no significant changes in the Company s internal controls or in other factors that could significantly affect these controls subsequent to the date the Company carried out its evaluations, including any corrective actions with regards to significant deficiencies and material weaknesses.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. See Exhibit Index following the signature page.

(b) Reports on Form 8-K. None.

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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: May 13, 2003	/s/ Lorin E. Krueger
	Lorin E. Krueger, President and Chief Executive Officer (Principal Executive Officer)
	/s/ Jennifer A. Thompson
	Jennifer A. Thompson, Chief Financial Officer (Principal Financial and Accounting Officer)

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SARBANES-OXLEY SECTION 302 CERTIFICATION

I, Lorin E. Krueger, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Winland Electronics, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ Lorin E. Krueger

Lorin E. Krueger
Chief Executive Officer

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SARBANES-OXLEY SECTION 302 CERTIFICATION

I, Jennifer A. Thompson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Winland Electronics, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ Jennifer A. Thompson

Jennifer A. Thompson
Chief Financial Officer

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

EXHIBIT INDEX TO FORM 10-QSB

For the fiscal quarter ended March 31, 2003 **Commission File No. 0-18393**

WINLAND ELECTRONICS, INC.

Exhibit No.	Description
99.1*	Certification of Chief Executive Officer Pursuant to section 906 of the Surbanes-Oxley Act of 2002
99.2*	Certification of Chief Financial Officer Pursuant to section 906 of the Surbanes-Oxley Act of 2002

*Filed herewith