



## **Winland Electronics, Inc. Reports Third Quarter 2010 Results**

**Mankato, Minn. / November 11, 2010** - Winland Electronics, Inc. (AMEX: WEX), a leading designer and manufacturer of custom electronic control products and systems, today announced net sales of \$4.4 million for the third quarter ended September 30, 2010, down \$744,000, or 14.5 percent compared with the corresponding period in 2009. The company reported a net loss of \$305,000, or \$0.08 per share versus a net loss of \$695,000, or \$0.19 per share in the comparable quarter in 2009.

EMS sales for the quarter totaled \$3.5 million versus \$4.2 million in the third quarter of 2009, a decline of 16.3 percent. Net sales for Winland's Proprietary Products segment for the quarter totaled \$838,000 a decline of 6.3 percent in the comparable period in 2009.

"Winland's third quarter operating performance primarily reflects declines in sales to our three largest customers totaling \$1,242,000. This was due to the delayed availability of a primary electronic component for our largest customer, a postponement in the launch of significant new product by our second largest customer, and reduced end-user demand by our third largest customer" said Thomas de Petra, Winland's President and Chief Executive Officer. "We continue to make progress in diversifying our revenue base and adding new customers. Unfortunately, sales to these accounts were not sufficient to offset the trends with our established customers."

The company recorded an operating loss for the quarter of \$356,000 versus an operating loss of \$667,000 in the comparable quarter in 2009. Gross margin totaled 8.7 percent versus 5.7 percent in the comparable period in 2009. The company reported an operating loss of \$86,000 in its EMS business for the quarter versus an operating loss of \$227,000 in the comparable period in 2009. The company's Proprietary Products business recorded an operating profit of \$170,000 versus an operating profit of \$171,000 in the second quarter of 2009.

"We continue to work our way through a difficult transition period from a more concentrated customer base to a more diversified and profitable mix of business. During that time we've worked hard to reduce our operating costs and to run our business more efficiently," de Petra said. "We're pleased with the results of our efforts to lower our break-even point in spite of the challenges at the top line."

### **Nine Month Results**

For the first nine months of 2010, sales totaled \$14.0 million versus \$18.0 million in the comparable period in 2009, a decrease of 22.0 percent on a year-over-year basis. The Company reported a net loss of \$1.7 million, or \$0.45 a share, in the first nine months of 2010 versus a loss of \$1.5 million, or \$0.42 a share in the comparable period in 2009.

EMS sales during the nine months of 2010 totaled \$11.6 versus \$15.6 million in 2009. Proprietary Products sales totaled \$2.5 million in the first nine months of 2010 versus \$2.4 million in the comparable period in 2009.

The company recorded an operating loss for the first nine months of 2010 of \$1.7 million versus an operating loss of \$1.3 million in the comparable period in 2009. Gross margins in the first nine months were 7.1 percent versus 10.3 percent in the comparable period in 2009.

Winland's EMS business recorded an operating loss of \$366,000 in the first nine months of 2010 versus an operating profit of \$405,000 in the comparable period of 2009. EMS gross margins for the nine-month period were a -0.5 percent versus 4.8 percent in 2009, the result of underutilization of fixed overhead and higher production costs related to qualification builds, among other factors.

In its Proprietary Products segment, the company recorded an operating profit of \$319,000 versus an operating profit of \$328,000 in the first nine months of 2009. Proprietary Product margins were also affected by underutilization of fixed overhead, resulting in a gross margin of 43.1 percent versus 46.4 percent in the comparable prior year.

"Our diversification efforts are showing steady progress, and we're encouraged by the solid relationships we've developed over the past 18 months," de Petra said. "The third quarter represented a continuation of these efforts while at the same time we take the necessary steps to adjust our business in response to a slower-than-expected ramp-up in these sales."

### **Financing Agreement**

During the quarter, Winland entered into an accounts receivable agreement with PrinSource Capital Companies, LLC, which allows PrinSource to purchase at its discretion certain accounts receivable. The agreement replaced the revolving line-of-credit Winland had with Marshall & Ilsley Bank. The \$1,248,000 outstanding balance on the revolving line-of-credit as of June 30, 2010 was paid in full and the revolving line-of-credit closed. The outstanding balance under Winland's agreement with PrinSource was \$948,000 as of September 30, 2010.

Management will host a conference call and webcast to discuss its third quarter 2010 results on Thursday, November 11, 2010, at 3:30 p.m. CT / 4:30 p.m. ET.

### **Call Details:**

Date: Thursday, November 11, 2010

Time: 3:30 p.m. CT / 4:30 p.m. ET

Call name: Winland Electronics Third Quarter Fiscal Year 2010 Conference Call

Dial-in number: 877-407-7184

### **Call Replay:**

A replay of the conference call will be available from 5:00 p.m. CT / 6:00 p.m. ET on Thursday, November 11, 2010 through Thursday, November 25, 2010. To access the replay, call 877-660-6853, using Account #336 and enter replay ID 360534.

### **Web Cast:**

Winland will also host a webcast of the conference call on-line at [www.winland.com](http://www.winland.com). The webcast will be available until Thursday, December 9, 2010. To access the web cast, you will need to have the Windows Media Player on your desktop. For a free download of the Media Player, visit <http://www.windowsmedia.com/mediaguide/Downloads>.

## **About Winland Electronics**

Winland Electronics, Inc. (www.winland.com), an electronic manufacturing services (EMS) company, designs and manufactures custom electronic controls and assemblies primarily for original equipment manufacturer (“OEM”) customers, providing services from early concept studies through complete product realization. Markets served primarily include medical, industrial, transportation and scientific instrumentation. In addition, the company designs and markets a proprietary line of environmental monitoring products to the security industry. These products monitor and detect critical environmental changes, such as changes in temperature or humidity, water leakage and power failures. Headquartered in Mankato, MN, Winland trades on the NYSE Amex Exchange under the symbol WEX.

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## **Cautionary Statements**

Certain statements contained in this press release 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. The statements included in this release with respect to the following matters are forward looking statements; (i) that the Company’s long-term strategy is gaining momentum; (ii) that the Company’s sequential growth from new EMS customers is encouraging; (iii) that the Company continues to be optimistic about the long-term opportunities that its customers present. These statements involve a variety of risks and uncertainties, known and unknown, including among other risks that (i) the Company will attain its long-term strategy; (ii) that the Company’s EMS customers will continue to produce sequential growth; and (iii) that the Company will have success with the long-term opportunities its customers present. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially.

**- Tables to follow -**

**WINLAND ELECTRONICS, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
(In Thousands, Except Share and Per Share Amounts)  
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	<u>2010</u>	2009	<u>2010</u>	2009
Net sales	\$ 4,378	\$ 5,122	\$ 14,053	\$ 18,008
Cost of sales	<u>3,999</u>	<u>4,831</u>	<u>13,061</u>	<u>16,153</u>
<b>Gross profit</b>	<u>379</u>	<u>291</u>	<u>992</u>	<u>1,855</u>
Operating expenses				
General and administrative	368	468	1,339	1,636
Sales and marketing	295	347	1,039	1,122
Research and development	<u>72</u>	<u>143</u>	<u>290</u>	<u>394</u>
<b>Total operating expenses</b>	<u>735</u>	<u>958</u>	<u>2,668</u>	<u>3,152</u>
<b>Operating loss</b>	<u>(356)</u>	<u>(667)</u>	<u>(1,676)</u>	<u>(1,297)</u>
Other income (expense)				
Interest expense	(52)	(30)	(100)	(75)
Other income (expense), net	<u>14</u>	<u>2</u>	<u>22</u>	<u>(12)</u>
<b>Total other expense</b>	<u>(38)</u>	<u>(28)</u>	<u>(78)</u>	<u>(87)</u>
<b>Loss before income taxes</b>	(394)	(695)	(1,754)	(1,384)
Income tax benefit (expense)	<u>89</u>	<u>-</u>	<u>87</u>	<u>(150)</u>
<b>Net loss</b>	<u>\$ (305)</u>	<u>\$ (695)</u>	<u>\$ (1,667)</u>	<u>\$ (1,534)</u>
Loss per common share:				
Basic and diluted	\$ (0.08)	\$ (0.19)	\$ (0.45)	\$ (0.42)
Weighted-average number of common shares outstanding:				
Basic and diluted	3,699,230	3,679,719	3,690,911	3,672,710

**WINLAND ELECTRONICS, INC.**  
**SEGMENT REPORTING**

<i>(\$ in thousands)</i>	<b>EMS</b>	<b>Proprietary</b>	<b>Other</b>	<b>Total</b>
<i>Three months ended September 30, 2010</i>				
Net sales	\$ 3,540	\$ 838	\$ -	\$ 4,378
Gross margin	(17)	396	-	379
Operating income (loss)	(86)	170	(440)	(356)
<i>Three months ended September 30, 2009</i>				
Net sales	\$ 4,228	\$ 894		\$ 5,122
Gross margin	(112)	403		291
Operating income (loss)	(227)	171	(611)	(667)
<i>Nine months ended September 30, 2010</i>				
Net sales	\$ 11,603	\$ 2,450	\$ -	\$ 14,053
Gross margin	(63)	1,055	-	992
Operating income (loss)	(366)	319	(1,629)	(1,676)
<i>Nine months ended September 30, 2009</i>				
Net sales	\$ 15,636	\$ 2,372		\$ 18,008
Gross margin	755	1,100		1,855
Operating income (loss)	405	328	(2,030)	(1,297)

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

<b>ASSETS</b>	<b>September 30, 2010</b> <b>(Unaudited)</b>	<b>December 31, 2009</b>
<b>Current Assets</b>		
Cash	\$ 182	\$ 55
Accounts receivable, less allowance for doubtful accounts of \$43 and \$49, respectively	2,532	2,823
Refundable income taxes	291	1,023
Inventories, less allowance for obsolescence of \$777 and \$562, respectively	3,319	3,039
Prepaid expenses and other assets	250	256
<b>Total current assets</b>	<b>6,574</b>	<b>7,196</b>
Property and equipment at cost	11,921	12,266
Less accumulated depreciation	(8,212)	(7,937)
Net property and equipment	3,709	4,329
<b>Total assets</b>	<b>\$ 10,283</b>	<b>\$ 11,525</b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Revolving line of credit agreement	\$ 948	\$ 367
Current maturities of long-term debt	384	380
Accounts payable	1,456	1,132
Accrued expenses:		
Compensation	265	369
Other short-term tax liabilities	68	-
Other	120	49
<b>Total current liabilities</b>	<b>3,241</b>	<b>2,297</b>
<b>Long-Term Liabilities</b>		
Long-term debt, less current maturities	413	699
Deferred revenue	116	122
Other long-term tax liabilities	-	258
<b>Total long-term liabilities</b>	<b>529</b>	<b>1,079</b>
<b>Stockholders' Equity</b>		
Common stock, par value \$0.01 per share; authorized 20,000,000 shares; issued and outstanding 3,699,230 shares as of September 30, 2010 and 3,686,435 as of December 31, 2009	37	37
Additional paid-in capital	5,046	5,016
Retained earnings	1,430	3,096
<b>Total stockholders' equity</b>	<b>6,513</b>	<b>8,149</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 10,283</b>	<b>\$ 11,525</b>

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

	For the Nine Months Ended September 30,	
	<b>2010</b>	2009
Cash Flows From Operating Activities		
Net loss	\$ (1,667)	\$ (1,534)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	589	615
Decrease in allowance for doubtful accounts	(6)	(89)
Loss on disposal of property and equipment	56	20
Non-cash stock based compensation	23	72
Decrease in deferred tax valuation allowance	(86)	-
Changes in assets and liabilities:		
Accounts receivable	297	968
Refundable income taxes	628	204
Inventories	(280)	520
Prepaid expenses	6	(215)
Accounts payable	324	(929)
Accrued expenses, including deferred revenue and other tax liabilities	(39)	159
<b>Net cash used in operating activities</b>	<b>(155)</b>	<b>(209)</b>
Cash Flows From Investing Activities		
Purchases of property and equipment	(31)	(75)
Proceeds from sale of property and equipment	7	8
<b>Net cash used in investing activities</b>	<b>(24)</b>	<b>(67)</b>
Cash flows From Financing Activities		
Net borrowings on revolving line of credit	581	506
Payments on long-term borrowings, including capital lease obligations	(282)	(302)
Proceeds from issuance of common stock	7	6
<b>Net cash provided by financing activities</b>	<b>306</b>	<b>210</b>
<b>Net increase (decrease) in cash</b>	<b>127</b>	<b>(66)</b>
Cash		
Beginning of period	55	356
Ending of period	<b>\$ 182</b>	<b>\$ 290</b>
Supplemental information		
Cash payments for:		
Interest	<b>\$ 81</b>	<b>\$ 77</b>
Cash received for:		
Income taxes	<b>\$ 628</b>	<b>\$ 183</b>
Non-cash reclassification of other tax liability from long-term to short-term	<b>\$ 258</b>	<b>\$ -</b>