WINLAND ELECTRONICS, INC.

1950 Excel Drive, Mankato, Minnesota 56001

Annual Report

December 31, 2015

Item 1 **Name of the issuer and its predecessors (if any)**

Winland Electronics, Inc.

Item 2 **Address of the issuer's principal executive offices:**

1950 Excel Drive
Mankato, MN 56001

Phone:	(507) 625-7231
Fax:	(507) 387-2488
Email:	bdlawrence@winland.com
Website:	www.winland.com

Item 3 **Security Information**

Common Stock

Symbol:	WELX		
CUSIP:	974241101		
Par Value:	$0.01		
Total Shares Authorized:	20,000,000	As of:	December 31, 2015
Total Shares Outstanding:	3,789,522	As of:	December 31, 2015

Transfer Agent

Computershare
250 Royall Street
Canton, MA 02021
781- 575 -2000

Registered under the Exchange Act and regulated by the SEC.

Item 4 **Issuance History**

None

Item 5 FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Audit Committee and Board of Directors
Winland Electronics, Inc.
Mankato, Minnesota

We have audited the accompanying financial statements of Winland Electronics, Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winland Electronics, Inc. as of December 31, 2015 and 2014 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 29, 2016

Winland Electronics, Inc.
Balance Sheets
As of December 31, 2015 and 2014
(In Thousands, Except Share Data)

	December 31, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 1,242**	$ 1,119
Accounts receivable, less allowance for doubtful accounts of $8 and $7 as of December 31, 2015 and 2014, respectively (Note 2)	**480**	555
Inventories (Note 3)	**449**	254
Prepaid expenses and other assets	**22**	21
Total current assets	**2,193**	1,949
Property and Equipment, at cost		
Machinery and equipment	**213**	213
Data processing equipment	**111**	103
Office furniture and equipment	**21**	21
Total property and equipment	**345**	337
Less accumulated depreciation	**286**	266
Net property and equipment	**59**	71
Equity method investment (Note 10)	**185**	-
Long-term inventories (Note 3)	**91**	10
Total long-term assets	**276**	10
Total assets	**$ 2,528**	$ 2,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 536**	$ 266
Accrued liabilities:		
Compensation	**42**	50
Other	**39**	49
Total current liabilities	**617**	365
Stockholders' Equity (Note 4)		
Common stock, par value $0.01 per share; authorized 20,000,000 shares; issued and outstanding 3,789,522 as of both December 31, 2015 and 2014	**38**	38
Additional paid-in capital	**5,119**	5,125
Accumulated deficit	**(3,246)**	(3,498)
Total stockholders' equity	**1,911**	1,665
Total liabilities and stockholders' equity	**$ 2,528**	$ 2,030

See Notes to Financial Statements

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

	2015	2014
Net sales (Note 2)	**$ 3,666**	$ 3,841
Cost of sales	**2,426**	2,578
Gross profit	**1,240**	1,263
Operating expenses:		
General and administrative	**573**	657
Sales and marketing	**355**	314
Research and development	**46**	18
Total operating expenses	**974**	989
Operating income	**266**	274
Other income (loss)	**(15)**	(1)
Income before income taxes	**251**	273
Income tax expense (benefit) (Note 5)	**(1)**	1
Net income	**$ 252**	$ 272
Income per common share data:		
Basic	**$ 0.07**	$ 0.07
Diluted	**$ 0.06**	$ 0.07
Weighted-average number of common shares outstanding:		
Basic	**3,789,522**	3,789,522
Diluted	**3,895,685**	3,809,748

See Notes to Financial Statements

Winland Electronics, Inc.
Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2015 and 2014
(In Thousands, Except Share Data)

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance on December 31, 2013	**3,789,522**	**$ 38**	**$ 5,123**	**$ (3,770)**	**$ 1,391**
Stock-based compensation expense	-	-	2	-	2
Net income	-	-	-	272	272
Balance on December 31, 2014	**3,789,522**	**38**	**5,125**	**(3,498)**	**1,665**
Stock-based compensation expense	-	-	3	-	3
Redemption of options	-	-	(9)	-	(9)
Net income	-	-	-	252	252
Balance on December 31, 2015	**3,789,522**	**$ 38**	**$ 5,119**	**$ (3,246)**	**$ 1,911**

See Notes to Financial Statements

Winland Electronics, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014
(In Thousands)

	2015	2014
Cash Flows From Operating Activities		
Net income	$ 252	$ 272
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	20	29
Stock based compensation	30	2
Loss on investment in equity method investment	15	
Loss on sale of property and equipment	-	1
Increase in allowance for doubtful accounts	1	-
Increase (decrease) in allowance for obsolete inventory	(113)	2
Changes in assets and liabilities:		
Accounts receivable	75	(46)
Inventories	(163)	156
Prepaid expenses and other assets	(1)	77
Accounts payable	270	(11)
Accrued liabilities	(19)	(99)
Net cash provided by operating activities	367	383
Cash Flows From Investing Activities		
Purchases of property and equipment	(8)	(6)
Proceeds from sale of property and equipment	-	1
Investment in equity method subsidiary	(200)	-
Net cash used in investing activities	(208)	(5)
Cash Flows From Financing Activities		
Cash paid for redemption of stock options	(36)	-
Net cash used in financing activities	(36)	-
Net increase in cash and cash equivalents	123	378
Cash and cash equivalents		
Beginning of year	1,119	741
End of year	$ 1,242	$ 1,119

See Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Winland Electronics, Inc. ("Winland" or the "Company") provides a line of proprietary environmental 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. These Winland branded and trademarked products accounted for 100% of the Company's revenue in 2015 and 2014.

The footnotes are in thousands unless noted.

A summary of Winland's significant accounting policies follows:

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowances for obsolete inventories, rework and warranties, valuation of long-lived assets and doubtful accounts. Winland cannot assure that actual results will not differ from those estimates.

Revenue Recognition: Revenue is recognized from the sale of products and out of warranty repairs when the product is delivered to a common carrier for shipment and title transfers.

Shipping and handling charges billed to customers are included in net sales, and shipping and handling costs incurred by the Company are included in cost of sales. For all sales, Winland has a binding purchase order from the customer. Winland does not generally accept returns but does provide a limited warranty as outlined below under Allowance for Rework and Warranty Costs. Sales and use taxes are reported on a net basis, excluding them from sales and cost of sales.

Cash and cash equivalents: Cash and cash equivalents include money market mutual funds and other highly liquid investments defined as maturities of three months or less from date of purchase. Winland maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Winland has not experienced any losses in such accounts.

Allowance for Doubtful Accounts: The Company generally requires no collateral from its customer with respect to trade accounts receivable. Invoices are generally due 30 days after presentation. Accounts receivable over 30 days are considered past due. No interest is charged on past due accounts. Winland evaluates its allowance for uncollectible accounts on a quarterly basis and reviews any significant customers with delinquent balances to determine future collectability. Winland bases its determinations on legal issues, past history, current financial and credit agency reports, and experience. Winland reserves for accounts deemed to be uncollectible in the year in which the determination is made. Management believes these values are estimates and may differ from actual results. Winland believes that, based on past history and credit policies, the net accounts receivable are of good quality. The Company writes off accounts receivable when they are deemed uncollectible and records recoveries of trade receivables previously written off when collected. The allowance for doubtful accounts was $8 and $7 as of December 31, 2015 and 2014, respectively.

Inventory Valuation: Raw component and finished goods inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or market value. Winland estimates excess, slow moving and obsolete reserves for inventory on a quarterly basis based upon order demand and production requirements for its major customers and annual reviews for other customers. Management's estimated reserve for slow moving and obsolete finished goods inventories was $128 and $241 as of December 31, 2015 and 2014, respectively.

Depreciation: Depreciation is computed using the straight-line method based on the estimated useful lives of the various assets, as follows:

	Years
Machinery and equipment	5 – 7
Data processing equipment	3 – 7
Office furniture and equipment	3 – 7

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

Equity Method Investment: Winland accounts for Equity Method Investment using the equity method of accounting in accordance with ASC 323, Investments – Equity Method and Joint Ventures ("ASC 323"). The equity method of accounting requires the investment to be initially recorded at cost and subsequently adjusted for the Company share of equity in the affiliates' earnings and distributions. The Company evaluates the carrying amount of the investments for impairment in accordance with ASC 323. Equity Method Investment is reviewed for potential impairment if the carrying amount of the investment exceeds its fair value. An impairment charge is recorded when an impairment is deemed to be other-than-temporary. To determine whether impairment is other-than-temporary, Winland considers whether the Company has the ability and intent to hold the investment until the carrying amount is fully recovered. The evaluation of an investment in an affiliate for potential impairment can require the Company management to exercise significant judgments. No impairment losses were recorded related to the Equity Method Investment for the year ended December 31, 2015.

Long-lived assets: Considerable management judgment is necessary in estimating future cash flows and other factors affecting the valuation of long-lived assets including the operating and macroeconomic factors that may affect them. The Company uses historical financial information, internal plans and projections and industry information in making such estimates. While the Company currently believes the expected cash flows from these long-lived assets exceeds the carrying amount, materially different assumptions regarding future performance and discount rates could result in future impairment losses. Such impairment would adversely affect earnings. No impairment losses were recognized in 2015 or 2014.

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. Reserves are established based on historical experience and analysis for specific known and potential warranty issues. The reserve reflecting historical experience and potential warranty issues is determined based on experience factors including rate of return by item, average weeks outstanding from production 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 December 31, 2015 and 2014. The product warranty liability reflects management's best estimate of probable liability under Winland's product warranties and may differ from actual results.

Income taxes: Income taxes are accounted for in accordance with FASB ASC Topic 740 Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred income tax assets, Winland considers whether it is "more likely than not," according to the criteria, that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

In accordance with FASB ASC 740-10-25-5, Winland recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Fair value of financial instruments: The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these instruments.

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

Income per common share: Basic income per common share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. Diluted income per common share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period, including potentially dilutive shares such as the options and warrants to purchase shares of common stock at various amounts per share (see Note 4).

For the year ended December 31, 2015, the basic income per share was $0.07 based on 3,789,522 shares outstanding. The diluted income per share was $0.06 for the year ended December 31, 2015 based on 3,895,685 shares outstanding, including 106,163 of dilutive option and warrant shares outstanding.

For the year ended December 31, 2014, the basic income per share was $0.07 based on 3,789,522 shares outstanding. The diluted income per share was $0.07 for the year ended December 31, 2014 based on 3,809,748 shares outstanding, including 20,226 of dilutive option and warrant shares outstanding.

Employee stock based compensation plans: At December 31, 2015, Winland had stock-based compensation plans, which are described more fully in Note 4. Winland accounts for these plans under FASB ASC Topic 718, Stock Compensation.

Advertising expense: Advertising is expensed as incurred and was $13 and $16 for the years ended December 31, 2015 and 2014, respectively.

Research and Development Expense: The Company expenses research and development costs as incurred. Research and development expenses of $46 and $18 were charged to operations during the years ended December 31, 2015 and 2014, respectively.

Recent Accounting Pronouncements: During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). The amendments in this ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. The amendments in this ASU are effective for the Company beginning on January 1, 2020 and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company has not yet determined what the effects of adopting this ASU will be on its consolidated financial statements.

During May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The company may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The company is currently assessing the effect that ASU Nos. 2014-09 and 2015-14 will have on its results of operations, financial position and cash flows.

During July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory.” ASU No. 2015-11 requires entities to measure inventory, other than inventory measured using last-in, last-out or the retail inventory method, at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal, and transportation. ASU No. 2015-11 is effective for annual periods beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. The company is currently assessing the effect that ASU No. 2015-11 will have on its results of operations, financial position and cash flows.

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

During November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes." ASU No. 2015-17 requires deferred tax assets and liabilities to be classified as noncurrent in a classified balance sheet. ASU No. 2015-17 is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The company is currently assessing the effect that ASU No. 2015-17 will have on its results of operations, financial position and cash flows.

Subsequent events: The Company has evaluated subsequent events through March 29, 2016, the date the financial statements were issued 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 years ended December 31, 2015 and 2014 as follows:

	For the Twelve Months Ended December 31,	
Sales percentage:	2015	2014
Customer A	51%	51%
Customer B	13%	13%

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

	As of December 31,	
Accounts receivable percentage:	2015	2014
Customer A	45%	50%
Customer B	21%	26%

Note 3. Inventories

The components of inventories were as follows net of reserves:

	December 31, 2015	December 31, 2014
Raw materials	$ 70	$ 6
Finished goods	470	258
Total, net	$ 540	$ 264

As of December 31, 2015 and December 31, 2014, $91 and $10, respectively, 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 4. Stock-Based Awards

Warrants: The Company had warrants outstanding to purchase 2,500 shares of common stock at a weighted average exercise price of $4.01 per share. These warrants were granted prior to 2007 and expired on February 16, 2016.

Stock option plans: As of December 31, 2015, Winland had one equity-based compensation plan, the 2013 Equity Incentive Plan, from which stock-based compensation awards can be granted to eligible employees, officers or directors. Previous to this plan, stock-based compensation awards were granted from the 2008 and 2005 Equity Incentive Plans. The plans are as follows:

2013 Equity Incentive Plan – This plan provides awards in the form of incentive stock options, nonqualified stock options, and restricted stock. Currently, this is the only plan under which awards are authorized for grant. As approved by the shareholders in May 2013, up to 350,000 shares are authorized for issuance under the plan. As of December 31, 2015 there were no awards under this plan. For any awards to be made under the plan, the exercise price is equal to the fair market value of Winland's common stock at the date of grant. Options generally vest over five years and have a contractual life up to ten years. Option awards provide for accelerated vesting if substantially all of Winland's assets are transferred through an acquisition, merger, reorganization or other similar change of control transaction. The Company issues new shares upon the exercise of options.

2008 Equity Incentive Plan – This plan provided grants in the form of incentive stock options, nonqualified stock options, and restricted stock. This plan was terminated as to future grants in May 2013. As of December 31, 2015, there were 178,000 options outstanding under this plan of which 153,000 are vested.

2005 Equity Incentive Plan – This plan provided grants in the form of incentive stock options, nonqualified stock options, and restricted stock. This plan was terminated as to future grants in May 2008. As of December 31, 2015, there were 5,500 options outstanding under this plan of which 5,500 are vested.

Winland uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards. Winland calculates the expected life of awards using historical data to estimate option exercises and employee terminations. Expected volatility is based on daily historical fluctuations of Winland's common stock using the closing market value for the number of days of the expected term immediately preceding the grant. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant for a bond with a similar term. The dividend yield is based on the expectation that Winland will not pay dividends.

Winland receives a tax deduction for certain stock option exercises and disqualifying stock dispositions during the period the options are exercised or the stock is sold, generally for the excess of the price at which the shares are sold over the exercise prices of the options. In accordance with FASB ASC 718-10-50-1, Winland revised its presentation in the Statements of Cash Flows to report any tax benefit from the exercise of stock options as financing cash flows. For the years ended December 31, 2015 and 2014, there were no such stock option exercises and disqualifying stock dispositions. No options were exercised for the years ended December 31, 2015 and 2014.

During 2015, the Company redeemed 25,000 outstanding, fully vested options for $36. The redemption price was calculated as the difference between the current quoted price of the Company's stock at the redemption date, and the strike price of the redeemed options. The redemption price exceeded the grant date fair value of the options by $27, which was recorded as stock based compensation for the year ended December 31, 2015.

Item 5 FINANCIAL STATEMENTS (Continued)

Note 4. Stock-Based Awards (Continued)

The following table represents stock option activity for the years ended December 31, 2015 and 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value
Outstanding options at January 1, 2014	300,200	$ 0.78		
Granted	-	-		
Forfeited	(92,000)	0.88		
Outstanding options at December 31, 2014	208,200	$ 0.73	5.0	$ 64
Exercisable at December 31, 2014	171,000	$ 0.75	4.4	$ 52
Granted	-	-		
Redeemed	(25,000)	-		
Outstanding options at December 31, 2015	183,200	$ 0.74	3.9	$ 247
Exercisable at December 31, 2015	158,500	$ 0.75	3.4	$ 211

The aggregate intrinsic value of options outstanding and options exercisable is based upon the Company's closing stock price on the last trading day of the fiscal year for the in-the-money options.

The total fair value of shares vested during the years ended December 31, 2015 and 2014 was $3 and $8, respectively.

The following table summarizes information about stock options outstanding at December 31, 2015:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$0.448 - $1.344	167,000	4.1	$ 0.62	142,000	$ 0.62
$1.344 - $1.792	11,000	2.3	1.74	11,000	1.74
$1.792 - $2.240	5,500	2.0	2.23	5,500	2.23
	183,500	3.9	$ 0.74	158,500	$ 0.75

At December 31, 2015, there was $1 unrecognized compensation cost, adjusted for estimated forfeitures, related to share-based payments which is expected to be recognized over a weighted-average period of 1.0 years and will be adjusted for any future changes in estimated forfeitures.

Item 5 FINANCIAL STATEMENTS (Continued)

Note 5. Income Taxes

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

	December 31, 2015	December 31, 2014
Statutory U.S. income tax rate	34 %	34 %
State taxes, net of federal tax effect	-	1
Change in Valuation Allowance	(34)	(35)
Other, including permanent differences	-	-
Effective income tax benefit rate	- %	- %

Deferred tax assets (liabilities) consist of the following components as of:

	December 31 2015	December 31 2014
Deferred tax assets:		
Inventory	$ 45	$ 83
Allowance for doubtful accounts	3	2
Non-qualified stock options	54	94
Accrued expenses	8	9
Research credit carryover	8	8
Net operating loss carryforward	2,503	2,461
Other	-	7
Valuation allowance	(2,551)	(2,642)
	70	22
Deferred tax liabilities:		
Property and equipment	(15)	(15)
Prepaid expenses	(7)	(7)
Investment	(48)	-
	(70)	(22)
Net deferred tax assets	$ -	$ -

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 net change in the total valuation allowance for the years ended December 31, 2015 and 2014 was an increase (decrease) of $(91) and $(101), respectively. The full valuation allowance for deferred tax assets as of December 31, 2015 and 2014 was $2,551 and $2,642, respectively.

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 December 31, 2015 and 2014, 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 ($1) income tax expense on its $251 pre-tax income for the year ended December 31, 2015. The Company had $1 income tax expense on its $273 pre-tax income for the year ended December 31, 2014.

Note 5. Income Taxes (Continued)

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 2012 through 2015 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 December 31, 2015 and 2014, the Company recognized no interest or penalties related to uncertain tax positions.

At December 31, 2015, the Company had net operating loss carryforwards of $6,490 for federal purposes and $4,588 for state income tax purposes that are available to offset future taxable income and begin to expire in the year 2031 and 2023, respectively. At December 31, 2015, the Company had Minnesota research and development tax credit carryforwards of $12, which begin to expire in the year 2023.

The Company's ability to utilize its net operating losses ("NOLs") to reduce taxable income in future years may be limited for various reasons, including if projected future taxable income is insufficient to recognize the full benefit of such NOLs prior to their expiration. Additionally, the ability to fully utilize these tax assets could also be adversely affected if the Company is deemed to have had an "ownership change" within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). An ownership change is generally defined as a greater than 50% increase in equity ownership by "5-percent shareholders" (as that term is defined for purposes of Section 382 of the Code) in any three year testing period. See Note 6 which more fully describes the Section 382 Rights Agreement approved by the Company.

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

Note 6. Shareholder Rights Plan

On February 27, 2014, the Company entered into a Section 382 Rights Agreement with its transfer agent Registrar and Transfer Company (now owned by Computershare Limited), dated as of February 27, 2014 (the "382 Rights Agreement"). The purpose of the 382 Rights Agreement is to help protect the Company's net operating loss tax asset by deterring certain acquisitions of Company stock by persons or groups beneficially owning 5% or more of the Company's outstanding stock, which could have the effect of limiting the Company's ability to use its built in losses and any resulting net loss carry forwards to reduce potential future federal income tax obligations. The Company's ability to use its net loss carry forwards in the future may be significantly limited if it experiences an "ownership change" for U.S. federal income tax purposes. In general, an ownership change will occur when the percentage of the Company's ownership (by value) of one or more "5 percent shareholders" (as defined in the Internal Revenue Code of 1986, as amended) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis).

Note 6. Shareholder Rights Plan (Continued)

Under the 382 Rights Agreement, from and after the record date of March 10, 2014 (the "Record Date"), each share of Company Common Stock will carry with it one preferred share purchase right (a "Right"). In connection with adoption of the Section 382 Rights Agreement, the Board declared a dividend distribution of the Rights to shareholders of record on the Record Date. Each Right will allow its holder to purchase from the Company one one-thousandth of a share of Series B Junior Participating Preferred Stock for $14.00 (the "Exercise Price"). The Rights will not be exercisable until 10 days after the public announcement that a person or group has become an "Acquiring Person" by obtaining beneficial ownership of 4.99% or more of the Company's outstanding Common Stock, or by the future acquisition of any shares of Company common stock by any person or group who held 4.99% or more of the Company's outstanding common stock as of the date the 382 Rights Agreement was adopted. If a person or group becomes an Acquiring Person, all holders of Rights except the Acquiring Person may, for payment of the Exercise Price, purchase shares of Common Stock with a market value of twice the Exercise Price, based on the market price of the Common Stock as of the acquisition that resulted in such person or group becoming an Acquiring Person. Prior to exercise, the Right does not give its holder any dividend, voting, or liquidation rights. The Rights will expire on March 10, 2019 and are redeemable by the Board for $0.000001 per Right at any time prior to a person or group becoming an Acquiring Person.

The Board has discretion under the 382 Rights Agreement to exempt any person or group from status as an Acquiring Person if the Board determines such person or group's acquisition will not limit the Company's use of its net loss carry forwards. The Company previously had a Shareholder Rights Plan, the rights under which expired on December 9, 2013.

With respect to the acquisition of 568,428 shares by FRMO Corp. on November 14, 2014, the Board determined that FRMO Corp. was not an Acquiring Person under the Section 382 Rights Agreement.

Note 7. Commitments and Contingencies

Operating leases: On December 31, 2012, Winland entered in to a month-to-month lease with Nortech to lease 1,924 square feet of office space at 1950 Excel Drive, Mankato, MN, the Company's prior manufacturing facility. This office space is used for the Company's operations including customer service, technical support and finance.

Rent expense of $10 for both of the years ended December 31, 2015 and 2014 is included in general and administrative expenses.

On February 9, 2015, Winland and Nortech Systems Incorporated entered into a Manufacturing Agreement which provides Nortech exclusive rights to manufacture Winland's finished goods requirements relating to specified products at a mutually agreed upon price. The Manufacturing Agreement will expire on December 31, 2017.

Note 8. Employee Benefit Plans

Health Savings Account: Winland has a health savings account plan for its employees who meet certain service requirements. The plan provides for Winland to make contributions equal to one-half the deductible limit elected by the employee. The employee may also make contributions equal to one-half the deductible limit elected. Winland makes contributions to the plan on a quarterly basis on the first day of each quarter. The contributions cannot be refunded to Winland if the employee's employment with Winland is terminated voluntarily or involuntarily. Winland contributed approximately $7 and $8 to the plan for the years ended December 31, 2015 and 2014, respectively.

Note 9. Severance Expense

As part of the Company's employment agreement with its President and Chief Financial Officer, if such executive officer is terminated without cause, severance payments may be due to such executive officer.

Note 10. Equity Method Investment

On July 10, 2015, the Company completed an investment of $200 in Northumberland IX LLC ("Northumberland"), a related party through common ownership and an entity formed with another third party to invest a total of $1,200 in EDG-PMA, LLC ("EDG-PMA"), itself an entity formed in cooperation with Exhibits Development Group, LLC ("EDG") to develop, design, construct, market, place, own, and operate a traveling museum exhibition presently known as *The Magical History Tour: A Beatles Memorabilia Exhibition*. Northumberland's investment in EDG-PMA is effectively structured as convertible preferred equity. The convertible preferred equity pays an irregular preferred dividend at a rate of 10% per annum on any outstanding principal balance and is immediately convertible into 30% of EDG-PMA common equity upon repayment of Northumberland's $1,200 principal amount, the timing of such repayment being dependent on the distributable cash flow of EDG-PMA. Until repayment of Northumberland's $1,200 principal amount, the convertible preferred equity is entitled to the entirety of EDG-PMA distributable cash flow. Prior to the repayment of principal, the Company's interest in Northumberland is proportionate to its $200 investment. Following the repayment of principal, the Company's distribution rights in Northumberland shall be 83.33%. The Company has no obligation to provide any further funding to either Northumberland or EDG-PMA.

For the twelve months ended December 31, 2015, the Company recognized a loss of $15 on the investment in Northumberland IX LLC which is included in other income (loss) on the statement of operations. A summary of the assets, liabilities, and results of operations of Northumberland for the year ended December 31, 2015 are presented below:

Total assets	**$**	**1,109**
Total liabilities	**$**	**-**
Net loss	**$**	**(91)**

Item 5 FINANCIAL STATEMENTS (Continued)

Note 11. Selected Quarterly Financial Information (Unaudited)

The following table sets forth a summary of the Company's quarterly financial information for each of the four quarters ended December 31, 2015 and 2014 (in thousands except share and per share data).

	Quarter Ended			
	March 31	June 30	September 30	December 31
2015				
Net sales	$ 936	$ 827	$ 992	$ 911
Cost of sales	570	569	636	651
Gross profit	**366**	**258**	**356**	**260**
Operating expenses:				
General and administrative	120	138	134	181
Sales and marketing	86	99	70	100
Research and development	31	2	-	13
Total operating expenses	237	239	204	294
Operating income (loss)	**129**	**19**	**152**	**(34)**
Other income	-	-	-	(15)
Income (loss) before income taxes	**129**	**19**	**152**	**(49)**
Income tax expense	-	-	-	(1)
Net income (loss)	**$ 129**	**$ 19**	**$ 152**	**$ (48)**
Net income per common share				
Basic	$ 0.03	$ 0.01	$ 0.04	$ (0.01)
Diluted	$ 0.03	$ 0.01	$ 0.04	$ (0.02)
Weighted-average number of common shares outstanding				
Basic	3,789,522	3,789,522	3,789,522	3,789,522
Diluted	3,856,762	3,884,703	3,907,913	3,911,034
2014				
Net sales	$ 964	$ 891	$ 958	$ 1,028
Cost of sales	642	595	647	694
Gross profit	**322**	**296**	**311**	**334**
Operating expenses:				
General and administrative	221	150	121	165
Sales and marketing	65	75	72	102
Research and development	4	7	2	5
Total operating expenses	290	232	195	272
Operating income	**32**	**64**	**116**	**62**
Other income (loss)	(1)	-	-	-
Income before income taxes	**31**	**64**	**116**	**62**
Income tax expense	-	-	-	1
Net income	**$ 31**	**$ 64**	**$ 116**	**$ 61**
Net income per common share				
Basic	$ 0.01	$ 0.02	$ 0.03	$ 0.01
Diluted	$ 0.01	$ 0.02	$ 0.03	$ 0.01
Weighted-average number of common shares outstanding				
Basic	3,789,522	3,789,522	3,789,522	3,789,522
Diluted	3,791,085	3,808,438	3,817,237	3,824,401

Item 6 **Describe the Issuer's Business, Products and Services**

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. Winland is also exploring various alternatives to enhance shareholder value that utilize the expertise of management and the Board of Directors. Such alternatives may include establishing new ventures, acquiring existing businesses, and other investment opportunities, including investments in marketable securities.

B. Date and State of Incorporation:

Issuer is a Corporation incorporated in the State of Minnesota on October 18, 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 **Describe the 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. The property is in good condition and suitable for the Company's current use.

Item 8 **Officers, Directors and Control Persons**

A. Names of Officers, Directors and Control Persons.

Name of Director/Officer	Age	Current Position With Winland Electronics, Inc.	Director Since
Brian D. Lawrence	45	President and Chief Financial Officer	
Lorin E. Krueger	60	Director	1983
Thomas J. Brady	51	Director	2008
Thomas Braziel	31	Director	2013
Matthew D. Houk	34	Director	2013
Murray Stahl	61	Director	2015

Name of Control Person

FRMO Corp., which acquired greater than 5% of the Company's outstanding common stock on November 14, 2014.

David B. Houk, who acquired greater than 5% of the Company's outstanding common stock prior to December 13, 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 March 25, 2016 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 March 25, 2016, 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	578,874	(2)	15.30%
FRMO Corp.	568,428	(3)	15.00%
Matthew D. Houk	477,799	(4)	12.60%
David B. Houk	191,045	(5)	5.00%
Lorin E. Krueger	137,679	(6)	3.60%
Thomas J. Brady	91,143	(7)	2.40%
Brian D. Lawrence	12,500	(8)	*
All Executive Officers and Directors as a Group (6 Individuals)	1,866,423	(9)	49.30%

* 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 Thomas Braziel, as of December 31, 2015, BE Capital Management LP, BE Capital Partners LLC, Thomas Braziel and David Earls, beneficially own the shares which Mr. Braziel who has sole power to vote or to dispose of such shares. The address for BE Capital Partners LLC is 205 East 42nd Street, 14th Floor, New York, NY 10017.

(3) According to a Schedule 13G filed with the Securities and Exchange Commission on November 26, 2014 by FRMO Corp. the shares are beneficially owned by FROM Corp. which has sole power to vote or to dispose of such shares. The address for FRMO Corp. is 555 Taxter Road, Suite 175, Elmsford, NY 10523.

(4) According to Matthew D. Houk, as of December 31, 2015, he beneficially owns and 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, NY 10016.

(5) 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.

(6) Includes 46,500 shares which may be purchased by Mr. Krueger upon exercise of currently exercisable options.

(7) 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.

(8) Includes 12,500 shares which may be purchased by Mr. Lawrence upon exercise of currently exercisable options.

(9) 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. Counsel:

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

2. **Accountant or Auditor:**

Baker Tilly Virchow Krause, LLP
225 South Sixth Street
Suite 2300
Minneapolis, MN 55402-4661
Phone: (612) 876-4500

Item 10 Issuer Certification

To Whom It May Concern:

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

1. I have reviewed this annual disclosure statement of Winland Electronics, Inc.

2. Based on my knowledge, this disclosure statement 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 disclosure statement;

3. Based on my knowledge, the financial statements, and other financial information included in this disclosure statement, 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 disclosure statement;

Dated: March 30, 2016

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