WINLAND ELECTRONICS, INC.

1950 Excel Drive, Mankato, Minnesota 56001

Annual Report

December 31, 2014

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, 2014
Total Shares Outstanding:	3,789,522	As of:	December 31, 2014

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

Date	Number and Type of Securities Issued	Person to Whom Issued	Reason for Issuance	SEC Registration Statement or Exemption from Registration	Trading Status	Legended Status
January 28, 2013	Options to purchase 185,000 shares of common stock, exercise price of $0.65 per share	David Gagne, then-Chief Executive Officer	Compensation for Employment Services	333-189383, subsequently withdrawn	All options expired on November 15, 2013, upon the termination of employment of David Gagne	N/A
January 28, 2013	Options to purchase 50,000 shares of common stock, exercise price of $0.65 per share	Brian Lawrence, Chief Financial Officer	Compensation for Employment Services	333-189383, subsequently withdrawn	Options are unexercised, will be restricted securities upon exercise	To be legended upon exercise
May 7, 2013	17,143 shares of restricted stock	Each of Thomas Goodmanson, Thomas Brady, and Lorin Krueger	Director Compensation	Securities Act Section 4(a)(2)	Restricted securities	Legended
May 7, 2013	Options to purchase 20,000 shares of common stock, exercise price of $0.70 per share	Meghan AuBuchon, then-VP of Marketing	Compensation for Employment Services	333-189383, subsequently withdrawn	All options expired on November 15, 2013, upon the termination of employment of Meghan AuBuchon	N/A
July 1, 2013	Options to purchase 30,000 shares of common stock, exercise price of $0.70 per share	James Griffin, then-Chief Information Officer	Compensation for Employment Services	333-189383, subsequently withdrawn	All options expired on January 27, 2014, upon the termination of employment of James Griffin	N/A
August 22, 2013	18,181 shares of restricted stock	Each of Matthew Houk and Thomas Braziel	Director Compensation	Securities Act Section 4(a)(2)	Restricted securities	Legended

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 sheet as of December 31, 2014, and the related statements of operations, changes in stockholders' equity and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2014 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 3, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheet of Winland Electronics, Inc. as of December 31, 2013, and the related statements of operations, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2013 and the results of its operations and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
February 27, 2014

Winland Electronics, Inc.
Balance Sheets
As of December 31, 2014 and 2013
(In Thousands, Except Share Data)

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,119	$ 741
Accounts receivable, less allowance for doubtful accounts of $7 as of both December 31, 2014 and 2013 (Note 2)	555	509
Inventories (Note 3)	254	366
Prepaid expenses and other assets	21	98
Total current assets	1,949	1,714
Property and Equipment, at cost (Note 1)		
Machinery and equipment	213	213
Data processing equipment	103	107
Office furniture and equipment	21	19
Total property and equipment	337	339
Less accumulated depreciation and amortization	266	243
Net property and equipment	71	96
Long-term inventories (Note 3)	10	56
Total assets	$ 2,030	$ 1,866
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 266	$ 277
Accrued liabilities:		
Compensation (Note 9)	50	130
Other	49	68
Total current liabilities	365	475
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, 2014 and 2013	38	38
Additional paid-in capital	5,125	5,123
Accumulated deficit	(3,498)	(3,770)
Total stockholders’ equity	1,665	1,391
Total liabilities and stockholders’ equity	$ 2,030	$ 1,866

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)

	2014	2013
Net sales (Note 2)	**$ 3,841**	$ 3,640
Cost of sales	**2,578**	2,741
Gross profit	**1,263**	899
Operating expenses:		
General and administrative	**657**	1,540
Sales and marketing	**314**	1,075
Research and development	**18**	902
Total operating expenses	**989**	3,517
Operating income (loss)	**274**	(2,618)
Other income (loss)	**(1)**	3
Income (loss) before income taxes	**273**	(2,615)
Income tax expense (Note 5)	**1**	-
Net income (loss)	**$ 272**	$ (2,615)
Income (loss) per common share data:		
Basic	**$ 0.07**	$ (0.70)
Diluted	**$ 0.07**	$ (0.70)
Weighted-average number of common shares outstanding:		
Basic	**3,789,522**	3,753,561
Diluted	**3,809,748**	3,753,561

See Notes to Financial Statements

Winland Electronics, Inc.
Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2014 and 2013
(In Thousands, Except Share Data)

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance on December 31, 2012	**3,701,630**	**$ 37**	**$ 5,055**	**$ (1,155)**	**$ 3,937**
Issuance of restricted common stock	87,892	1	59	-	60
Stock-based compensation expense	-	-	9	-	9
Net loss	-	-	-	(2,615)	(2,615)
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**

See Notes to Financial Statements

Winland Electronics, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013
(In Thousands)

	2014	2013
Cash Flows From Operating Activities		
Net income (loss)	**$ 272**	$ (2,615)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	**29**	28
Loss on sale of property and equipment	**1**	
Non-cash stock based compensation	**2**	69
Increase in allowance for obsolete inventory	**2**	215
Changes in assets and liabilities:		
Accounts receivables	**(46)**	7
Inventories	**156**	247
Prepaid expenses and other assets	**77**	(42)
Accounts payable	**(11)**	(226)
Accrued liabilities	**(99)**	108
Net cash provided by (used in) operating activities	**383**	(2,209)
Cash Flows From Investing Activities		
Purchases of property and equipment	**(6)**	(81)
Receipt of funds held in escrow	**-**	2,641
Proceeds from sale of property and equipment	**1**	
Net cash provided by (used in) investing activities	**(5)**	2,560
Net increase in cash and cash equivalents	**378**	351
Cash and cash equivalents		
Beginning of year	**741**	390
End of year	**$ 1,119**	$ 741

See Notes to Financial Statements

Item 5 FINANCIAL STATEMENTS (Continued)

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 2014 and 2013.

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 quarter 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 $7 at both December 31, 2014 and 2013.

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 $241 and $239 as of December 31, 2014 and 2013, 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)

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 2014 or 2013.

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, 2014 and 2013. 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.

Per 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.

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

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.

For the year ended December 31, 2013, the diluted loss per share was the same as basic loss per share since the effects of options and warrants would have been anti-dilutive. The diluted share calculation excluded 303,000 shares for the year ended December 31, 2013, as inclusion of these shares would have been anti-dilutive.

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

Employee stock based compensation plans: At December 31, 2014, 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 $16 and $7 for the years ended December 31, 2014 and 2013, respectively.

Research and Development Expense: The Company expenses research and development costs as incurred. Research and development expenses of $18 and $902 were charged to operations during the years ended December 31, 2014 and 2013, respectively.

Subsequent events: The Company has evaluated subsequent events through March 2, 2015, 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, 2014 and 2013 as follows:

Sales percentage:	2014	2013
Customer A	51%	50%
Customer B	13%	12%

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

	December 31,	
Accounts receivable percentage:	2014	2013
Customer A	50%	55%
Customer B	26%	21%

Note 3. Inventories

The components of inventories were as follows net of reserves:

	December 31, 2014	December 31, 2013
Raw materials	$ 6	$ 16
Finished goods	258	406
Total, net	$ 264	$ 422

As of December 31, 2014 and December 31, 2013, $10 and $56, 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 has 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 expire on February 16, 2016.

Stock option plans: As of December 31, 2013, 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:

Item 5 FINANCIAL STATEMENTS (Continued)

Note 4. Stock-Based Awards (Continued)

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. Awards issued under the plan as of December 31, 2014 include, 30,000 shares of incentive stock options of which none were vested at December 31, 2014. In 2014, these awards were forfeited. As of December 31, 2014 there were no awards under this 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, 2014, there were 203,000 options outstanding under this plan of which 165,500 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, 2014, 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 with the following weighted-average assumptions for the indicated periods.

	December 31,	
	2014	2013
Expected life, in years	n/a	4.0
Expected volatility	n/a	79.1%
Risk-free interest rate	n/a	0.4%
Dividend yield	n/a	0.0%

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, 2014 and 2013, there were no such stock option exercises and disqualifying stock dispositions. No options were exercised for the years ended December 31, 2014 and 2013.

Item 5 FINANCIAL STATEMENTS (Continued)

Note 4. Stock-Based Awards (Continued)

The following table represents stock option activity for the years ended December 31, 2014 and 2013:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value
Outstanding options at January 1, 2013	468,500	$ 0.93		
Granted	285,000	0.66		
Forfeited	(453,000)	0.86		
Outstanding options at December 31, 2013	300,500	$ 0.78	6.4	$ 6
Exercisable at December 31, 2013	220,500	$ 0.81	5.4	$ 6
Granted	-	-		
Forfeited	(92,000)	0.88		
Outstanding options at December 31, 2014	208,500	$ 0.73	5.0	$ 64
Exercisable at December 31, 2014	171,000	$ 0.75	4.4	$ 52

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 weighted average fair value of stock options granted with an exercise price equal to the deemed stock price on the date of grant was $0.41 during 2013.

The total fair value of shares vested during the years ended December 31, 2014 and 2013 was $8 and $0, respectively.

The following table summarizes information about stock options outstanding at December 31, 2014:

	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	192,000	5.2	$ 0.63	154,500	$ 0.62
$1.344 - $1.792	11,000	3.3	1.74	11,000	1.74
$1.792 - $2.240	5,500	3.0	2.23	5,500	2.23
	208,500	5.0	$ 0.73	171,000	$ 0.75

At December 31, 2014, there was $4 unrecognized compensation cost, adjusted for estimated forfeitures, related to share-based payments which is expected to be recognized over a weighted-average period of 1.6 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, 2014	December 31, 2013
Statutory U.S. income tax rate	34 %	34 %
State taxes, net of federal tax effect	1	1
Change in Valuation Allowance	(35)	(35)
Other, including permanent differences	-	-
Effective income tax benefit rate	- %	- %

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

	December 31 2014	December 31 2013
Deferred tax assets:		
Inventory	$ 83	$ 89
Allowance for doubtful accounts	2	2
Non-qualified stock options	94	95
Accrued expenses	9	2
Research credit carryover	8	8
Net operating loss carryforward	2,461	2,584
Other	7	14
Valuation allowance	(2,642)	(2,743)
	22	51
Deferred tax liabilities:		
Property and equipment	(15)	(19)
Prepaid expenses	(7)	(32)
	(22)	(51)
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, 2014 and 2013 was an increase (decrease) of $(101) and $890, respectively. The full valuation allowance for deferred tax assets as of December 31, 2014 and 2013 was $2,642 and $2,743, 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, 2014 and 2013, the Company calculated its estimated annualized effective tax rate at 0% and 0%, respectively as the Company provided a full valuation allowance on deferred tax assets. The Company had $1 income tax expense on its $273 pre-tax income for the year ended December 31, 2014. The Company had no income tax expense on its $2,615 pre-tax loss for the year ended December 31, 2013.

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 2011 through 2014 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, 2014 and 2013, the Company recognized no interest or penalties related to uncertain tax positions.

At December 31, 2014, the Company had net operating loss carryforwards for federal purposes of $6,366 and $4,584 for state income tax purposes that are available to offset future taxable income and begin to expire in the year 2022. At December 31, 2014, the Company had Minnesota research and development tax credit carryforwards of $12, which begin to expire in the year 2022.

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).

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

Note 6. Shareholder Rights Plan (Continued)

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.

On January 1, 2013, the Company entered in to a twelve month lease for office space at 601 Carlson Parkway, Suite 1050, Minnetonka, MN which used for the Company's sales and marketing, product management and executive staff. The lease was cancelled on September 30, 2013 and the Company incurred no cancellation fees.

On September 11, 2013, the Company entered in to a twelve month lease for office space at 100 North Sixth Street, Suite 604A, Minneapolis, MN with a commencement date of October 1, 2013. The office was used for the Company's sales and marketing, product management and executive staff. The lease was cancelled on December 31, 2013 with the Company incurring $44 of cancellation expense which was included in general and administrative expense for the year ended December 31, 2013. No further obligations associated with this lease exist as of December 31, 2013.

Rent expense of $10 and $102 for the years ended December 31, 2014 and 2013, respectively, 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 $8 and $18 to the plan for the years ended December 31, 2014 and 2013, respectively.

Note 9. Severance Expense

On November 15, 2013, the Company agreed to terminate the employment relationship of its then Chief Executive Officer. Pursuant to the separation agreement, the Company agreed to pay a lump sum to the former executive totaling $200 which is included in general and administrative expense for the year ended December 31, 2013.

On November 15, 2013, the Company agreed to terminate the employment relationship of its then Vice President of Marketing. Pursuant to the separation agreement, the Company agreed to pay salaries due to the former employee totaling $34 which is included in sales and marketing expense for the year ended December 31, 2013. The agreement calls for the amount to be paid at regular payroll intervals over the term of the agreement. The accrual for severance was included in Accrued Liabilities: Compensation on the balance sheet at December 31, 2013.

Item 5 FINANCIAL STATEMENTS (Continued)

Note 9. Severance Expense (Continued)

On December 27, 2013, the Company agreed to terminate the employment relationship of its then Chief Information Officer. Pursuant to the separation agreement, the Company agreed to pay salaries due to the former employee totaling $79 which is included in research and development expense for the year ended December 31, 2013. The agreement calls for the amount to be paid at regular payroll intervals over the term of the agreement. The accrual for severance was included in Accrued Liabilities: Compensation on the balance sheet at December 31, 2013.

The following table provides financial information on the employee severance expense payable at December 31, 2014 and 2013.

	December 31, 2012	Net Additions	Payments	December 31, 2013
Employee Severance Expense	$ -	$ 313	$ (208)	$ 105

	December 31, 2013	Net Additions	Payments	December 31, 2014
Employee Severance Expense	$ 105	$ -	$ (105)	$ -

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.

Item 5 FINANCIAL STATEMENTS (Continued)

Note 10. 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, 2014 and 2013 (in thousands except share and per share data).

	Quarter Ended			
	March 31	**June 30**	**September 30**	**December 31**
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	(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
2013				
Net sales	$ 873	$ 869	$ 977	$ 921
Cost of sales	604	587	694	856
Gross profit	**269**	**282**	**283**	**65**
Operating expenses:				
General and administrative	299	430	377	434
Sales and marketing	226	284	361	204
Research and development	234	323	214	131
Total operating expenses	759	1,037	952	769
Operating loss	**(490)**	**(755)**	**(669)**	**(704)**
Other income (loss)	5	-	-	(2)
Loss before income taxes	**(485)**	**(755)**	**(669)**	**(706)**
Income tax expense	-	-	-	-
Net loss	**$ (485)**	**$ (755)**	**$ (669)**	**$ (706)**
Net loss per common share - basic and diluted	$ (0.13)	$ (0.20)	$ (0.18)	$ (0.19)
Weighted-average number of common shares outstanding - basic and diluted	3,701,630	3,732,208	3,789,522	3,789,522

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	44	President and Chief Financial Officer	
Lorin E. Krueger	59	Director	1983
Thomas J. Brady	50	Director	2008
Thomas Braziel	30	Director	2013
Matthew D. Houk	33	Director	2013

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 February 10, 2015 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 February 10, 2015, 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)
FRMO Corp.	568,428	(2)	15.00%
Thomas Braziel	563,899	(3)	14.90%
Matthew D. Houk	418,557	(4)	11.00%
David B. Houk	191,005	(5)	5.00%
Lorin E. Krueger	137,679	(6)	3.60%
Thomas J. Brady	91,143	(7)	2.40%
Brian D. Lawrence	25,000	(8)	*
All Executive Officers and Directors as a Group (5 Individuals)	1,236,278	(9)	32.60%

* Less than 1%

(1) Under the rules of the SEC, shares not actually outstanding are deemed to be beneficially owned by an individual if such individual has the right to acquire the shares within 60 days. Pursuant to such SEC Rules, shares deemed beneficially owned by virtue of an individual's right to acquire them are also treated as outstanding when calculating the percent of the class owned by such individual and when determining the percent owned by any group in which the individual is included.

(2) According to a Schedule 13G filed with the Securities and Exchange Commission on November 26, 2014 by FRMO Corp. the shares are beneficially owned by FRMO 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.

(3) According to Thomas Braziel, as of December 31, 2014, 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 211 East 70th Street, Apt 10F, New York, NY, 10021.

(4) According to Matthew D. Houk, as of December 31, 2014, 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 25,000 shares which may be purchased by Mr. Lawrence upon exercise of currently exercisable options.

(9) Includes 133,500 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 3, 2015

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