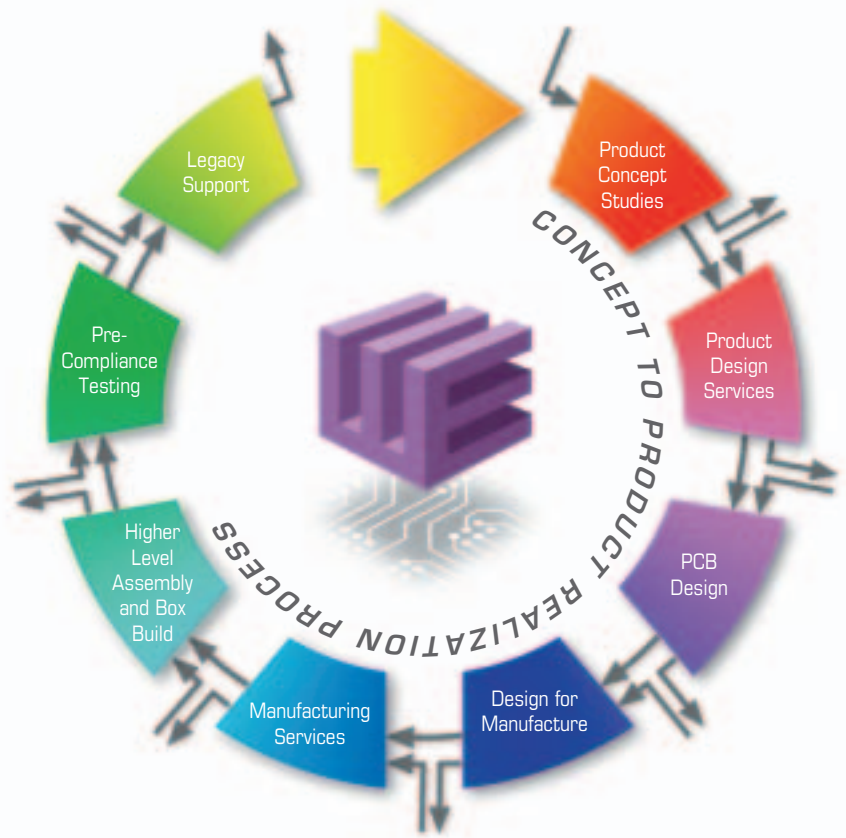


W I N L A N D E L E C T R O N I C S



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A N N U A L
R E P O R T

BUSINESS DESCRIPTION



From Concept to Product Realization, Winland Electronics (AMEX: WEX) provides a comprehensive range of design, engineering and Electronic Manufacturing Services (EMS) to Original Equipment Manufacturing (OEM) companies in a wide variety of industries.

As a Concept to Product Realization Company, Winland provides customers with multiple entry points for product design and manufacturing services, allowing them to choose the appropriate services to meet their unique requirements.

Winland also leverages its extensive design and manufacturing services to develop proprietary products for the Environmental Security Products market, including sensors and alarm products that monitor power, water, temperature, humidity and vehicle detection. Winland distributes these products through an established channel of more than 500 alarm and security dealers.

BUSINESS BREAKDOWN

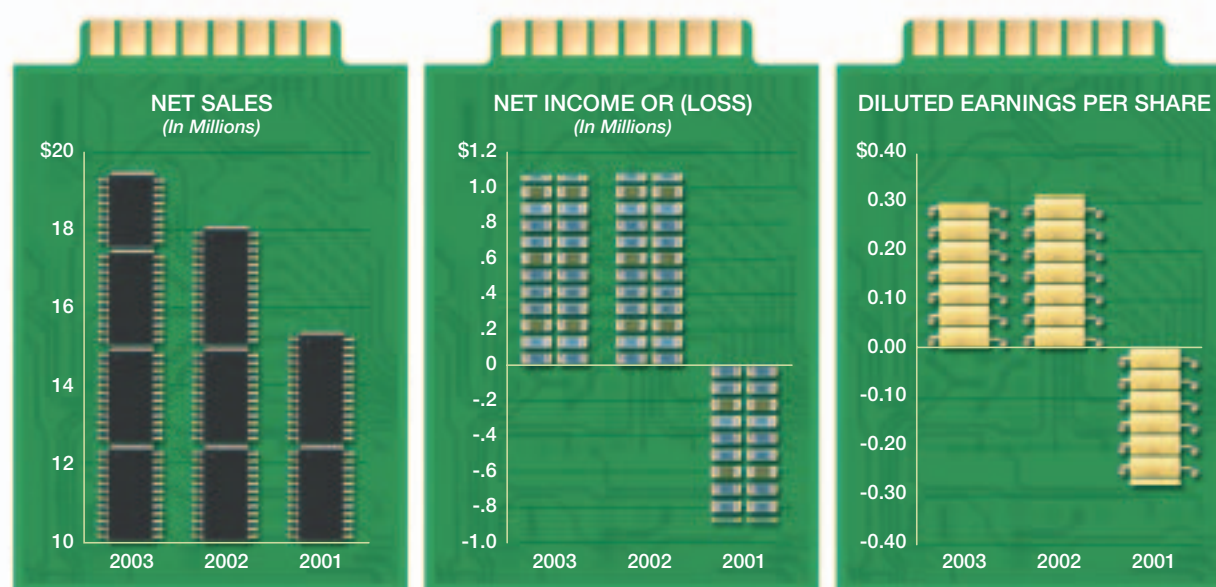


CONTENTS

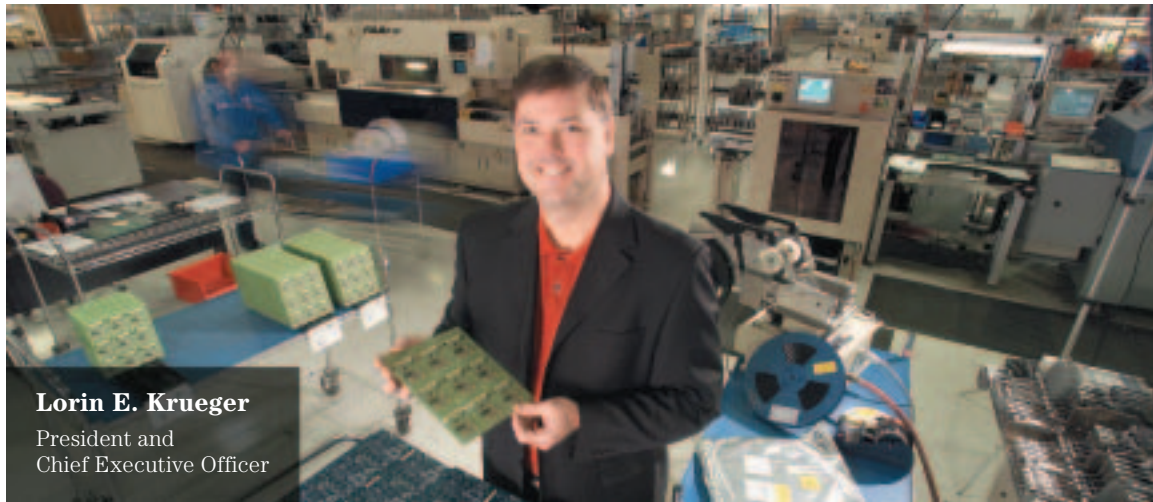
Financial Highlights	1
Letter to Shareholders	2-3
Market for the Company's Common Stock	4
Management's Discussion and Analysis	5-11
Financial Report Index	12
Independent Auditor's Report	13
Financial Report	14-28
Winland At A Glance	Inside Back Cover
Directors and Executive Officers	Back Cover

FINANCIAL HIGHLIGHTS

	Year Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
FOR THE YEAR			
Net Sales	\$ 19,464,121	\$ 18,097,465	\$ 15,394,754
Net Income (Loss)	\$ 1,048,263	\$ 1,077,805	\$ (876,729)
Earnings (Loss) Before Income Tax	\$ 1,720,263	\$ 1,211,805	\$ (1,002,329)
PER SHARE DATA (As adjusted for 12/31/03 1.1-for-1 stock split)			
Diluted Earning (Loss) Per share	\$ 0.30	\$ 0.32	\$ (0.27)
Weighted Average Common Shares Outstanding Including Potentially Dilutive Shares	3,484,841	3,374,030	3,249,541
AT YEAR END			
Total Shareholder's Equity	\$ 5,660,754	\$ 4,524,157	\$ 3,431,160
Long-term Debt	\$ 1,248,671	\$ 2,098,083	\$ 2,453,909
Total Assets	\$ 9,634,122	\$ 9,091,641	\$ 9,815,151



LETTER TO OUR SHAREHOLDERS



Dear Fellow Shareholders,

We completed another successful year at Winland. We have demonstrated continued profitability quarter after quarter for the last two years and further improved our strong balance sheet. These accomplishments position us to take advantage of opportunities to grow our business. Sales increases were modest in 2003, and, as we predicted when writing last year's letter, customers proceeded cautiously with their plans and with their product rollouts. However, we are beginning to see increased activity with our prospective and our existing customers. Additionally, industry indicators are more favorable with sustainable growth indicated by many analysts for late 2004.

2003 YEAR IN REVIEW:

Existing customers have again played a major role in our sales growth during 2003. While we were able to establish relationships with several new customers during the year, their contribution to our revenues for 2003 was not of a magnitude that warrants mentioning, with one exception. In December, Parker Hannifin awarded to us a network procurement contract that we expect to generate \$1.5 to \$2.0 million in annual revenue over time. During 2003, we added strength to our sales staff and increasingly sought business from customers that require our complete range of services from design to manufacturing. The value we offer our customers is a responsive, seamless partnership that enriches their opportunities and reinforces their success. We have updated our business management system with the move to the ISO-9001-2000 standard, and we have implemented many cost and quality improvement efforts indicative of a world-class facility.

We also reinforced our sales effort in our proprietary product business unit with the addition of a sales manager to better take advantage of current and future opportunities in the security product market. Proprietary products represented 13 percent of our revenue in 2003, an amount we hope to increase in the coming years. In addition, we improved our pre-tax earnings by 42 percent compared to 2002. This tremendous accomplishment allowed us to deliver diluted earnings per share of \$0.30 on a fully taxed basis, nearly matching last year's earnings per share figure despite the tax burden and increase in

outstanding shares. This performance was recognized in the market as both the price of our stock and volumes traded reached record highs - encouraging signs of market growth and an appreciation of our business.

Our board of directors has played a key role in developing a roadmap for our continued growth. The board has crafted a code of conduct that is binding for everyone in our company and has continued to take actions to ensure that you are informed about your company and that your investment is secure. The board also declared a 10 percent stock dividend — the first in the history of the company — as a way to say “thank you” for your ongoing support.

LOOKING FORWARD:

We entered 2004 with good momentum. Revenue diversity is still a key objective, but we are also committed to be selective in the business we seek and accept. In the first quarter of 2004 we introduced a new advanced assembly line to increase our capacity and our technology. Our customers demand the highest quality, and we expect to exceed their expectations and improve their experience every day. At the center of this commitment is our staff. Each member of Winland’s team possesses a passion and a commitment to exceed our business objectives and to satisfy our customers.

We will work to build our technical knowledge and capability to match the demands we are seeing in our markets. In 2003, we committed to expanding and enhancing our sales force. In 2004, we will bring forth the same effort in improving our technical skills and processes. We have committed to the procurement of advanced manufacturing systems to meet technological challenges, but more importantly, we are committed to expanding the ability of our staff to use the tools provided and deliver high-value solutions to our customers and high value returns to our investors. We are aware of the challenges global economy and global competition for manufacturing jobs pose. We are pursuing complex business opportunities that require a high degree of flexibility, intellectual property that needs to be protected, and product specific requirements such as high level traceability and reliability standards that must be met. As the nation continues into recovery, outsourcing is projected to be a growing industry throughout the U.S. economy.

We face challenges as we continue to grow. We have taken steps to address these challenges and we anticipate further improving our performance as we see indicators of market recovery. I am confident in the work that has been done and in the opportunities that lie ahead in the markets we serve. As with each of my previous letters to shareholders, I thank you on behalf of both myself and our board of directors for your ongoing support, patience, encouragement, and attention to our progress.

Sincerely,



Lorin Krueger,
President & CEO

MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is listed on the American Stock Exchange ("AMEX") under the symbol WEX. The following table sets forth the high and the low bid quotations, as reported by AMEX adjusted for the December 31, 2003 stock split.

Fiscal Year Ended		
<u>December 31, 2002</u>	<u>Low</u>	<u>High</u>
First Quarter	0.73	1.15
Second Quarter	0.73	2.63
Third Quarter	1.69	2.41
Fourth Quarter	1.09	2.58

Fiscal Year Ended		
<u>December 31, 2003</u>	<u>Low</u>	<u>High</u>
First Quarter	1.18	2.27
Second Quarter	1.82	3.14
Third Quarter	1.82	2.54
Fourth Quarter	2.41	5.45

On March 9, 2004, the fair market value of the Company's Common Stock was \$4.35 based on the closing sale price quoted by AMEX on that date. As of December 31, 2003, the Company had approximately 441 shareholders of record.

On December 9, 2003 the Board of Directors authorized a 1.1-for-1 split of the Company's Common Stock payable as a 10% stock dividend, effective December 31, 2003, payable to stockholders of record as of December 19, 2003.

The Company has never paid cash dividends on its Common Stock. The Board of Directors presently intends to retain earnings for use in the Company's business and does not anticipate paying cash dividends on Common Stock in the foreseeable future. Any future determinations as to the payment of dividends will depend on the financial condition of the Company and such other factors as are deemed relevant by the Board of Directors.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

RESULTS OF OPERATIONS – 2003 vs. 2002

Net Sales: The Company recorded net sales of \$19,464,121 for the year ended December 31, 2003, an increase of \$1,366,656 or 7.6% from \$18,097,465 for the same period in 2002. The increase in net sales is attributable to OEM customers, mainly the additional supply of electronic controls sold to Select Comfort Corporation. The increase in net sales to OEM customers was offset, in part, by a reduction in sales to Johnson Outdoors Incorporated (JOI). In June of 2003, the Company announced that orders to JOI would be reduced in the coming years due to JOI's decision to begin purchasing more high-volume assemblies from a vendor that provides assembly in China. Sales to JOI represented 13.2% of total sales for 2003. The Company will continue to provide assemblies to JOI, but with significant reductions expected in 2004 and into the future. As a percentage of total sales proprietary product sales were 13.4% and 15% for the twelve months ended December 31, 2003 and 2002, respectively.

The Company's Original Equipment Manufacture (OEM) customers have given the Company purchase orders and forecasts having an aggregate value of \$8.9 million to be completed during 2004 and subsequent periods. The Company expects to receive additional orders from current OEM customers for 2004 and future production. Although the Company has purchase orders in place from many of its OEM customers which are scheduled to be fulfilled in 2004, these customers may terminate their relationship with the Company at any time, with certain cancellation provisions. Therefore, there is no assurance that the Company will continue to be engaged by any of these customers.

The Company has continued to provide a full range of Electronic Manufacturing Services (EMS) to OEM customers, delivering product needs from early concept through product realization. The Company continues to explore additional geographic regions to market its OEM services, primarily through networking with referral sources in the Chicago and Minneapolis areas. In addition to the networking and referral sources, the Company has signed representative agreements with two manufactures' representative firms in the Illinois and Kansas areas. The loss of any significant OEM customer would likely have an adverse effect on the Company's short-term, and potentially long-term, results.

Gross Profits: Gross profit was \$5,064,331 or 26.0% of net sales for the year ended December 31, 2003 compared to \$4,295,114 or 23.7% of net sales for the same period in 2002. Gross profits increased 17.9% for the year ended December 31, 2003 compared to 2002. The increase in gross profit, as a percentage of sales, is attributed to an increase in sales, as well as a more profitable sales mix for the year. For the year ended December 31, 2003, the Company saw increases in salaries and related expenses, employee incentive plan expenses, and product liability insurance premiums, as well as increased manufacturing variances caused by the increase in volume of new product designs, offset in part by a reduction in obsolescence and warranty reserves. For 2003, the Company also experienced increases in the administrative expenses related to the Arrow Electronics, Inc. "In Plant Store" (IPS), which started in April of 2002. Inventory in the IPS, although located on Company premises, is owned by Arrow Electronics, Inc. and is invoiced to the Company when utilized by the Company in manufacturing. The Company has seen the use of the IPS reduce shipping and carrying costs of inventory.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

(continued)

Operating Expenses: General and administrative expense was \$1,515,200 or 7.8% of net sales for the year ended December 31, 2003, compared to \$1,268,955 or 7.0% of net sales for the same period in 2002. The increase in general and administrative expenses for 2003 is attributed primarily to increased salaries and employee incentive plan accruals and related expenses, employee training, increased expenses connected with corporate governance and investor relations, and increases in bad debt reserves related to specific customer accounts, offset in part by decreased telephone expense due to renegotiating of rates.

Research and development expense (including the development of new company products as well as design services and support to the OEM customer base) was \$718,650 or 3.7% of net sales for the year ended December 31, 2003, compared to \$671,930 or 3.7% of net sales for the same period in 2002. The increase in research and development expense for 2003, compared to 2002, is primarily attributed to increased salaries and related employee expenses as well as warranty expense associated with designs for customers, offset in part by a reduction in product development costs not directly associated with billable projects.

Sales and marketing expense (including project management) was \$992,361 or 5.1% of net sales for the year ended December 31, 2003, compared to \$899,539 or 5.0% of net sales for the same period in 2002. The increases in sales and marketing expenses are directly associated with the development of the sales and marketing efforts of the organization. The increases result from increased salaries and related expenses, commissions expense, employee training and travel expense, offset in part by a reduction in leased vehicle expense.

Winland's sales and marketing efforts are focused on building long-term relationships with targeted OEM strategic accounts in the markets that it serves. The Company relies on direct sales people along with an extensive referral network to promote its services and uncover new opportunities. Management believes that augmenting its direct sales force with a referral network and utilizing independent sales representatives on a limited basis will effectively provide Winland an opportunity to build market share in the EMS (Electronic Manufacturing Services) market. In 2003 the Company added the new sales position of EMS business development manager to focus exclusively on strategic account development at select targeted accounts that best align with the products and services offered by the Company. In an effort to expand sales coverage within the Midwest, the Company has signed representative agreements with two independent sales representative firms headquartered in Chicago, and Kansas City.

Winland's proprietary products in the Environmental Sensors and Security Retail sectors are marketed through a network of dealers and distributors and supported by internal staff. In an effort to develop the Environmental and Security Retail portion of the business, the Company added the position of Manager for Environmental Security Products and initiated strategic planning for its proprietary products in late 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

(continued)

Interest Expense: Interest expense was \$136,944 or 0.7% of net sales for the year ended December 31, 2003, compared to \$249,515 or 1.4% of net sales for the same periods in 2002. The decrease in interest expense was due to a reduction in short-term and long-term debt. During 2003, the Company has not borrowed from its revolving line-of-credit and has paid down \$854,125 of long term debt. All of the cash used to reduce debt was generated from the Company's operating activities.

Net Earnings: The Company reported net income of \$1,048,263 or \$0.32 per basic share and \$0.30 per diluted share for 2003, compared to net income of \$1,077,805 or \$0.33 per basic share and \$0.32 per diluted share for 2002. The reduction in net income for 2003 is due to a significantly increased income tax expense. During 2002 the Company had tax loss carryforwards and tax credits available that significantly reduced the tax liabilities for 2002. The income tax expense for 2003 includes a reduction of \$87,000 for a tax credit carryforwards utilized in 2003, however, the tax expense more closely represents the Company's effective income tax rate. The earnings per share were also impacted by the increase in the number of shares outstanding due to the fact that a significant number of shares in the option program were converted to common stock during the latter part of 2003.

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

The Company uses a 39% blended federal and state income tax rate, offset in part, by a tax benefit from the use of net operating losses and tax credits generated in previous years.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION
(continued)

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was \$1,785,562 for the year ended December 31, 2003, compared to \$2,765,278 for the same period in 2002, a decline of \$979,715. Cash provided by operations was used to pay down \$854,125 of the Company's long-term debt and purchases of capital equipment of \$275,501. The Company has funded its current operations with working capital provided by operations.

The current ratio at December 31, 2003 and December 31, 2002 was 2.5 to 1 and 2.3 to 1, respectively. Working capital equaled \$3,581,629 on December 31, 2003, compared to \$2,857,080 on December 31, 2002. The increase in working capital is attributed to increases in cash and accounts receivable balances, offset in part by increased accounts payable balances, compensation payable and other accrued expenses.

On June 30, 2003 the Company entered into a revolving credit agreement with the M&I Bank of Minneapolis, Minnesota. There were no advances outstanding on the revolving line-of-credit agreement at December 31, 2003 or December 31, 2002. The agreement with M&I Bank is also subject to certain restrictive requirements.

Management believes that our cash balance, availability of funds under the line of credit agreement with M&I Bank, and anticipated cash flows from operations will be adequate to fund our cash requirements for the next twelve months.

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

Contractual Obligations	Payments due by period					
	Total	2004	2005	2006	2007	2008 and thereafter
Long-term debt including interest	\$1,805,200	\$515,200	\$1,127,700	\$105,600	\$20,000	\$36,700
Total contractual cash obligations	\$1,805,200	\$515,200	\$1,127,700	\$105,600	\$20,000	\$36,700

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

We also have a commercial commitment as described below:

Other Commercial Commitment	Total Amount Committed	Outstanding at 12/31/02	Date of Expiration
Line of credit	\$2,500,000	\$0	March 31, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

(continued)

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are summarized in the footnotes to our financial statements. These policies include, but are not limited to, revenue recognition, income taxes, product warranties, depreciation and long-lived assets. Some of the most critical policies are also discussed below.

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

The allowance for doubtful accounts is estimated at \$20,000 at December 31, 2003. During 2003, the Company increased the allowance \$56,000 based on current expectations with regard to specific customers, and wrote off \$46,000, resulting in a net increase of \$10,000. The Company has not experienced significant bad debt write-offs the last several years, therefore, the current allowance is believed to be adequate for any exposures to loss on December 31, 2003 accounts receivable.

The Company has established a reserve for slow moving and obsolete inventories and believes the reserve of \$163,000 at December 31, 2003 is adequate. The reserve is based on an analysis of the existing inventory, including applying probability of obsolescence percentages to the aged inventory brackets and specific identification of obsolete inventory in connection with decisions to exit certain markets.

In addition, the Company has established a reserve of \$131,000 for rework and warranties. This reserve is based on historical experience and analysis of specific known and potential warranty issues. A portion of the reserve is based on a percentage of the sales for the six-month period ended December 31, 2003. The percentage used reflects historical experience. Specifically identified or potential warranty issues are analyzed to determine the probability and the Company's financial exposure, and the reserve is established.

At December 31, 2003, the financial statements reflect a net deferred tax asset of \$142,700. Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Realization of deferred tax assets is dependent on future taxable income during the period that deductible temporary differences and carryforwards are to be available to reduce taxable income.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

(continued)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*, which requires the issuer to classify certain freestanding financial instruments as liabilities. Under the provisions of Statement No. 150, common stock issued with mandatory redemption features that require the Company to repurchase the shares upon an event that is certain to occur, such as termination of employment or death of the stockholder, is no longer classified as equity; instead, these shares will be reported as shares subject to mandatory redemption and classified as a liability in the balance sheet. In such circumstances, disclosure of the components of this liability will be included in the notes to the financial statements. The requirements of Statement No. 150 will apply to the Company for its quarter ending September 30, 2004. The effect of the adoption of this standard will be reported as a cumulative effect of a change in accounting principle in the year of adoption, and restatement of previously issued financial statements is not permitted. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

CAUTIONARY STATEMENTS

Certain statements contained in this Annual Report on Form 10-KSB and other written and oral statements made from time to time by the Company do not relate strictly to historical or current facts. As such, they are considered "forward-looking statements" which provide current expectations or forecasts of future events. Such statements can be identified by the use of terminology such as "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "possible," "plan," "project," "should," "will," "forecast" and similar words or expressions. The Company's forward-looking statements generally relate to the Company's growth strategies, financial results, product development and sales efforts. One must carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions, including, among others, those discussed below. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. As provided for under the Private Securities Litigation Reform Act of 1995, the Company wishes to caution investors that the following important factors, among others, in some cases have affected and in the future could affect the Company's actual results of operations and cause such results to differ materially from those anticipated in forward-looking statements made in this document and elsewhere by or on behalf of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

(continued)

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

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

The Company's ability to execute its initiatives to increase sales and expand market share depends upon its ability to develop additional proprietary products and on the availability of sufficient financing, both equity and debt, to meet fixed and variable costs associated with such growth. There is no assurance that the Company will be able to obtain the financing necessary to achieve its goals.

The Company's success in providing an improved mix of higher margin proprietary products depends on the effectiveness and timing of its new product development efforts as well as the availability and price of any competing products on the market. There is no assurance that the Company will be able to develop or acquire additional proprietary products that will be accepted in the marketplace and contribute to the Company's operating profits.

FINANCIAL REPORT INDEX

Independent Auditor's Report	13
Balance Sheets	14 – 15
Statements of Income	16
Statements of Changes in Stockholders' Equity ...	17
Statements of Cash Flows	18
Notes to Financial Statements	19 – 28



McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Winland Electronics, Inc.
Mankato, Minnesota

We have audited the accompanying balance sheets of Winland Electronics, Inc. as of December 31, 2003 and 2002, and the related statements of income, changes in stockholders' equity and cash flows for the years 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Minneapolis, Minnesota
January 23, 2004

BALANCE SHEETS

December 31, 2003 and 2002

ASSETS (Note 3)	2003	2002
Current Assets		
Cash	\$ 1,412,058	\$ 692,700
Accounts receivable, less allowance for doubtful accounts of \$20,000 in 2003; \$10,000 in 2002 (Note 9)	2,255,003	2,091,544
Income tax receivable	138,234	-
Inventories (Note 2)	1,861,135	1,811,644
Prepaid expenses and other assets	195,278	145,035
Deferred taxes (Note 6)	179,500	296,300
Total current assets	6,041,208	5,037,233
Other Assets		
Patents and trademarks, net of accumulated amortization of \$34,065 in 2003; \$33,649 in 2002	174	590
Property and Equipment, at cost (Note 4)		
Land and land improvements	272,901	272,901
Building	2,983,586	2,983,586
Machinery and equipment	3,905,882	3,735,832
Data processing equipment	1,323,660	1,265,396
Office furniture and equipment	364,715	352,834
Total property and equipment	8,850,744	8,610,548
Less accumulated depreciation	5,258,004	4,556,721
Net property and equipment	3,592,740	4,053,828
Total assets	\$ 9,634,122	\$ 9,091,641

See Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	2003	2002
Current Liabilities		
Current maturities of long-term debt	408,833	413,546
Accounts payable	1,192,391	931,933
Accrued expenses:		
Compensation	612,590	524,088
Other	245,765	151,547
Income tax payable	-	159,028
Total current liabilities	2,459,579	2,180,143
Long-Term Liabilities		
Deferred taxes (Note 6)	94,300	110,300
Deferred revenue (Note 5)	170,818	178,958
Long-term debt, less current maturities (Notes 3 and 4)	1,248,671	2,098,083
Total long-term liabilities	1,513,789	2,387,341
Total liabilities	3,973,368	4,467,484
Commitments and Contingencies (Notes 4 and 10)		
Stockholders' Equity (Notes 7,8 and 10)		
Common stock, par value \$0.01 per share; authorized 20,000,000 shares; issued and outstanding 3,356,955 shares in 2003 and 2,978,160 shares in 2002	33,570	29,782
Additional paid-in capital (Note 7)	3,886,717	2,264,710
Retained earnings	1,740,467	2,229,665
Total stockholders' equity	5,660,754	4,524,157
Total liabilities and stockholders' equity	\$ 9,634,122	\$ 9,091,641

STATEMENTS OF INCOME

Years Ended December 31, 2003 and 2002

	2003	2002
Net sales (Note 9)	\$ 19,464,121	\$ 18,097,465
Cost of sales	14,399,790	13,802,351
Gross profit	5,064,331	4,295,114
Operating expenses:		
General and administrative	1,515,200	1,268,955
Research and development	718,650	671,930
Sales and marketing	992,361	899,539
	3,226,211	2,840,424
Operating income	1,838,120	1,454,690
Other income (expenses):		
Interest expense	(136,944)	(249,515)
Other, net	19,087	6,630
	(117,857)	(242,885)
Income before income taxes	1,720,263	1,211,805
Income tax expense (Note 6)	672,000	134,000
Net income	\$ 1,048,263	\$ 1,077,805
Earnings (loss) per share data:		
Basic	\$ 0.32	\$ 0.33
Diluted	0.30	0.32
Weighted-average number of common shares outstanding:		
Basic	3,302,476	2,262,720
Diluted	3,484,841	3,374,030

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2003 and 2002

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount			
Balance on December 31, 2001	2,959,842	\$ 29,598	\$ 2,249,702	\$ 1,151,860	\$ 3,431,160
Issuance of common stock in accordance with employee stock purchase plan (Note 8)	10,894	110	11,332	–	11,442
Issuance of common stock in accordance with employee stock option plan (Note 7)	7,424	74	3,676	–	3,750
Net income	–	–	–	1,077,805	1,077,805
Balance on December 31, 2002	2,978,160	29,782	2,264,710	2,229,665	4,524,157
Issuance of common stock in accordance with employee stock purchase plan (Note 8)	11,946	119	18,006	–	18,125
Issuance of common stock in accordance with employee stock option plan (Note 7)	62,454	625	26,672	–	27,297
Warrants issued for services (Note 7)	–	–	43,178	–	43,178
Stock dividend (Note 1)	304,395	3,044	1,534,151	(1,537,195)	–
Cash dividend on fractional shares	–	–	–	(266)	(266)
Net income	–	–	–	1,048,263	1,048,263
Balance on December 31, 2003	3,356,955	\$ 33,570	\$3,886,717	\$1,740,467	\$5,660,754

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003 and 2002

	2003	2002
Cash Flows From Operating Activities		
Net income	\$ 1,048,263	\$ 1,077,805
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	717,866	736,162
Loss on disposal of equipment	1,139	5,333
Investor relations expense, warrants issued	18,617	-
Deferred taxes	100,800	(186,000)
Changes in assets and liabilities:		
Accounts receivable	(163,459)	(97,561)
Income tax receivable	(138,234)	177,000
Inventories	(49,491)	628,083
Prepaid expenses and other assets	(25,682)	(44,844)
Accounts payable	260,192	548
Accrued expenses, including deferred revenue	174,579	309,723
Income tax payable	(159,028)	159,028
Net cash provided by operating activities	1,785,562	2,765,278
Cash Flows From Investing Activities		
Purchases of property and equipment	(257,501)	(23,912)
Net cash used in investing activities	(257,501)	(23,912)
Cash Flows From Financing Activities		
Net payments on revolving credit agreement	-	(1,981,501)
Principal payments on long-term borrowings, including capital lease obligations	(854,125)	(482,105)
Proceeds from issuance of common stock	45,422	15,192
Net cash used in financing activities	(808,703)	(2,448,415)
Net increase in cash	719,358	292,951
Cash		
Beginning of year	692,700	399,749
End of year	\$ 1,412,058	\$ 692,700
Supplemental Disclosures of Cash Flow Information		
Cash payments for (receipts of):		
Interest	\$ 136,285	\$ 249,424
Income taxes, net	911,721	(15,835)
Supplemental Schedule of Noncash Investing and Financing Activities		
Cash dividend to be paid included in accounts payable	\$ 266	\$ -
Warrants issued in connection with investor relations services to be provided	\$ 43,178	\$ -
Capital lease obligations incurred for the use of equipment	\$ -	\$ 67,500

See Notes to Financial Statements.

NOTES

TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: The Company operates in one business segment, which includes the design and manufacture of electronic control devices. Sales are to customers located primarily in the upper Midwest, and credit is granted based upon the credit policies of the Company.

A summary of the Company's significant accounting policies follows:

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

Revenue recognition: Revenue from product sales is recognized when shipped, FOB shipping point. 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 goods sold.

Cash: The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Trade receivables: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition and credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market.

Patents and trademarks: Patents and trademarks are stated at cost and are being amortized using the straight-line method over their economic useful lives. Amortization expense included in the statements of income for the years ended December 31, 2003 and 2002, was approximately \$400 each year. Approximate amortization for 2004 will be \$174.

Depreciation: It is the Company's policy to include depreciation expense on assets acquired under capital leases with depreciation expense on owned assets. Depreciation is computed using the straight-line method based on the estimated useful lives of the various assets or capital lease term, as follows:

	Years
Land improvements	17-20
Building	39-40
Machinery and equipment	5-7
Data processing equipment	3-7
Office furniture and equipment	3-7

NOTES TO FINANCIAL STATEMENTS

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

Long-lived assets: The Company reviews its long-lived assets and intangibles periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future cash flows be less than the carrying value, the Company would recognize an impairment loss. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the long-lived assets and intangibles. There were no impairment losses recognized in 2003 and 2002.

Product warranties: The Company provides a limited warranty for a period of one year for its products. The Company's standard warranties require the Company to repair or replace defective products during such warranty period at no cost to the customer. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The Company utilizes historical trends and actuarial analysis tools to assist in determining the appropriate loss reserve levels.

Changes in the Company's warranty liability, which is included in other accruals on the balance sheets, during the period are approximately as follows:

	Years Ended December 31	
	2003	2002
Balance, beginning	\$ 95,000	\$ 25,000
Accruals for products sold	141,000	194,000
Payments made	(90,000)	(118,000)
Changes in accruals for pre-existing warranties	(15,000)	(6,000)
Balance, ending	<u>\$ 131,000</u>	<u>\$ 95,000</u>

Income taxes: Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Investment tax credits, research and development credits, and job credits are accounted for by the flow-through method, whereby they reduce income taxes currently payable and the provision for income taxes in the period the assets giving rise to the credits are placed in service. To the extent such credits are not currently utilized on the Company's tax return, deferred tax assets, subject to considerations about the need for a valuation allowance, are recognized for the carryforward amount.

Fair value of financial instruments: Management estimates that the carrying value of long-term debt approximates fair value, estimated based on interest rates for the same or similar debt offered to the Company having the same or similar remaining maturities and collateral requirements. The carrying value of all other financial instruments approximates fair value due to the short-term nature of the instruments.

NOTES TO FINANCIAL STATEMENTS

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

Stock dividend: On December 18, 2003, the Company declared a stock dividend of 1 share of common stock for every 10 shares outstanding as of December 19, 2003. Fractional shares were not issued, resulting in a liability of \$266, which was included in accounts payable at December 31, 2003. All share and per share amounts, including stock options and warrants, have been restated to reflect the stock dividend.

Earnings per share: Basic earnings per share is computed by dividing net earnings by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net earnings 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 7). The dilutive effect of the additional shares for the years ended December 31, 2003 and 2002, was to increase the weighted-average shares outstanding by 182,365 and 113,310 respectively.

Employee stock plans: At December 31, 2003, the Company has a stock-based compensation plan, which is described more fully in Note 7. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, no stock-based employee compensation cost has been recognized, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share had compensation cost for the stock-based compensation plan been determined based on the grant date fair values of awards (the method described in FASB Statement No. 123, *Accounting for Stock-Based Compensation*):

	Years Ended December 31	
	2003	2002
Net income (loss):		
As reported	\$ 1,048,263	\$ 1,077,805
Deduct total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(104,276)	(96,209)
Pro forma	<u>\$ 943,987</u>	<u>\$ 981,596</u>
Basic earnings per share:		
As reported	\$ 0.32	\$ 0.33
Pro forma	0.29	0.30
Diluted earnings per share:		
As reported	0.30	0.32
Pro forma	0.27	0.29

The pro forma effect on earnings in 2003 and 2002 is not representative of the pro forma effect in future years because options and warrants vest over several years, and additional awards are generally made each year.

Research and development expense: The Company expenses research and development costs as incurred. Research and development expenses of \$718,650 and \$671,930 were charged to operations during the years ended December 31, 2003 and 2002, respectively.

Reclassifications: Certain 2002 expenses have been reclassified to be in conformity with the 2003 presentation. These reclassifications had no effect on previously reported net income.

NOTES TO FINANCIAL STATEMENTS

Note 2. Inventories

The components of inventories at December 31, 2003 and 2002, are as follows:

	December 31	
	2003	2002
Raw materials	\$ 1,091,213	\$ 1,462,315
Work in progress	146,307	138,663
Finished goods	786,615	395,666
Obsolescence reserve	(163,000)	(185,000)
Total	<u>\$ 1,861,135</u>	<u>\$ 1,811,644</u>

Note 3. Financing Arrangement and Long-Term Debt

Financing arrangement: The Company has a \$2,500,000 revolving line-of-credit agreement which expires on June 28, 2004, if not renewed. Advances are due on demand, are secured by substantially all assets of the Company, and are subject to a defined borrowing base equal to 75 percent of qualified accounts receivable, 50 percent of qualified inventories, and 25 percent of net book value of unencumbered equipment. Interest on advances is at the prime rate (4 percent at December 31, 2003) and is due monthly. There were no advances outstanding on the revolving line of credit at December 31, 2003 and 2002. (a)

Long-term debt: The following is a summary of long-term debt:

	December 31	
	2003	2002
6.941% note payable, due in monthly installments of \$15,221, including interest, to January 1, 2005, when the remaining balance is payable, secured by property and equipment (a)	\$ 904,234	\$ 1,019,731
4% note payable, due in monthly installments of \$3,698, including interest, to January 1, 2005, when the remaining balance is payable, secured by property and equipment	239,295	273,363
6% note payable, due in monthly installments of \$1,665, including interest, to November 2009, secured by building	98,152	111,799
Capital lease obligations, due in various monthly installments, with interest ranging from 5.44% to 9.30%, to November 2006, secured by equipment (Note 4)	415,823	641,765
8.25% note payable, paid in full during 2003	-	464,973
	<u>1,657,504</u>	<u>2,511,631</u>
Less current maturities	408,833	413,546
Total long-term debt	<u>\$ 1,248,671</u>	<u>\$ 2,098,085</u>

(a) These agreements contain certain reporting and operating covenants. The Company was in violation of the capital expenditure covenant, for which a waiver was obtained on January 2, 2004.

NOTES TO FINANCIAL STATEMENTS

Note 3. Financing Arrangement and Long-Term Debt (Continued)

Approximate maturities of long-term debt for years subsequent to December 31, 2003, are as follows:

2004	409,000
2005	1,098,000
2006	98,000
2007	17,000
2008	18,000
Thereafter	18,000
Total	<u>\$ 1,658,000</u>

Note 4. Commitments and Contingencies

Capital leases: The Company is leasing certain equipment under capital leases. The cost and accumulated depreciation of assets acquired under capital leases at December 31, 2003 and 2002, are as follows:

	2003	2002
Cost	\$ 1,417,078	\$ 1,417,078
Accumulated depreciation	1,003,508	806,471
Net leased property under capital leases	<u>\$ 413,570</u>	<u>\$ 610,607</u>

The future minimum lease payments under capital leases and the aggregate present value of the net minimum lease payments at December 31, 2003, are approximately as follows:

2004	268,000
2005	112,000
2006	85,000
Total minimum lease payments	<u>466,000</u>
Less amount representing interest	50,000
Present value of net minimum lease payments (included in long-term debt)	<u>\$ 416,000</u>

Operating leases: The Company leased certain equipment and vehicles under noncancelable operating leases through October 2003. The Company was responsible for all repairs and maintenance, insurance and other related expenses in connection with these leases. There are no future minimum annual lease payments under these operating leases as of December 31, 2003.

Rental and other related expenses for the above leases for the years ended December 31, 2003 and 2002, were approximately \$25,000 and \$37,000, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 5. Deferred Revenue

During 1994, the Company and the city of Mankato entered into a tax increment financing agreement for the construction of the Company's operating facility. In connection with this agreement, the city donated land improvements with a fair value of \$270,009. The fair value of land improvements donated was accounted for as deferred revenue and is being amortized over 39 years, which is the life of the building.

Note 6. Income Taxes

Components of the provision for (benefits of) income taxes are as follows:

	December 31	
	2003	2002
Currently payable	\$ 571,200	\$ 320,000
Deferred	100,800	(186,000)
	<u>\$ 672,000</u>	<u>\$ 134,000</u>

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

	December 31	
	2003	2002
Statutory U.S. income tax rate	35 %	35 %
State taxes, net of federal tax effect	6 %	2 %
Tax benefit of tax credit carryforwards	(6)%	(18)%
Deductible expenses	4 %	- %
Valuation allowance	- %	(8)%
Effective income tax rate	<u>39 %</u>	<u>11 %</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Income Taxes (Continued)

Net deferred tax assets consist of the following components as of December 31, 2003 and 2002:

	December 31	
	2003	2002
Deferred tax assets:		
Inventory	\$ 81,900	\$ 91,100
Allowance for doubtful accounts	7,400	3,700
Tax credit carryforwards	-	91,900
Accrued expenses	125,100	108,300
Other	5,600	1,300
	<u>220,000</u>	<u>296,300</u>
Deferred tax liabilities:		
Property and equipment	94,300	110,300
Prepaid expenses	40,500	-
	<u>134,800</u>	<u>110,300</u>
Net deferred tax assets	<u>\$ 85,200</u>	<u>\$ 186,000</u>

The deferred tax amounts mentioned above have been classified on the accompanying balance sheets as of December 31, 2003 and 2002 as follows:

	December 31	
	2003	2002
Current assets	\$ 179,500	\$ 296,300
Noncurrent liabilities	(94,300)	(110,300)
	<u>\$ 85,200</u>	<u>\$ 186,000</u>

During the year ended December 31, 2001, the Company recorded a valuation allowance of \$315,200. The valuation allowance was established by management due to the difficulties in predicting when the net deferred tax assets would be utilized and the amount of future taxable income that may be generated. Realization of deferred tax assets is dependent on future taxable income during the period that deductible temporary differences and carryforwards are to be available to reduce taxable income. In 2002, the Company eliminated the previously recorded valuation allowance, as in the opinion of management it was more likely than not that the deferred income tax assets would be realized due to future profitability.

NOTES TO FINANCIAL STATEMENTS

Note 7. Stock-Based Compensation Plans

Warrants: On February 19, 2003, the Company granted to Hayden Communications, Inc., an investor relations firm, warrants to purchase 36,000 shares of common stock. Warrants to purchase 1,500 shares of common stock vest each month beginning March 19, 2003, and continuing during the two-year contractual period. The warrants' term will extend three years from the date of full vesting. The contract for services to be provided by Hayden Communications, Inc. does provide both parties with a cancellation right. Such a cancellation would limit the warrants to those vested up to the time of termination. On December 31, 2003, warrants to purchase 36,000 shares of common stock were outstanding, of which 10,500 shares were exercisable. The exercise price of such outstanding warrants is \$2.04 per share.

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

Stock option plan: The Company has reserved 825,000 common shares for issuance under qualified and nonqualified stock options for its key employees and directors. Option prices are the respective market values of the stock at the time the options were granted. Options become exercisable as determined at the date of grant by a committee of the Board of Directors. Options generally expire five years after the date of grant, unless an earlier expiration date is set at the time of grant.

As noted in Note 1, the Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*. Accordingly, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2003 and 2002:

	December 31	
	2003	2002
Expected life of options	5 years	5 years
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	68.6%	68.5%
Risk-free interest rate	3.3%	3.0%

Additional information relating to all outstanding options as of December 31, 2003 and 2002, is as follows:

	2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	427,900	\$ 1.60	413,160	\$ 1.63
Exercised	(105,823)	1.52	(18,700)	1.41
Expired	(42,900)	1.77	(107,360)	1.74
Granted	103,497	2.38	140,800	1.58
Options outstanding, end of year	382,674	\$ 1.81	427,900	\$ 1.60

Weighted-average fair value of options granted during the year, computed using the Black-Scholes option pricing model

\$ 1.40	\$ 0.60
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NOTES TO FINANCIAL STATEMENTS

Note 7. Stock-Based Compensation Plans (Continued)

The following table summarizes information about stock options outstanding at December 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$0.48 to \$0.86	57,640	3.3	\$ 0.69	36,256	\$ 0.73
\$1.14 to \$1.59	86,900	3.2	1.41	53,460	1.48
\$1.82 to \$1.85	73,935	2.7	1.84	61,560	1.84
\$2.05 to \$2.87	164,199	2.7	2.41	158,639	2.39
	382,674		\$ 1.81	309,915	\$ 1.93

At December 31, 2002, there were 289,740 options exercisable at a weighted-average exercise price of \$1.71.

Note 8. Employee Benefit Plans

Pension plan: The Company has a qualified defined contribution 401(k) profit-sharing plan for its employees who meet certain age and service requirements. Employees are allowed to make contributions up to 15 percent of their eligible compensation. The plan also provides for a company-sponsored match to be determined each year by the Board of Directors. The Company contributed approximately \$73,800 and \$65,200 to the plan for the years ended December 31, 2003 and 2002, respectively. In addition, the Company may make additional discretionary contributions to the plan to the extent authorized by the Board of Directors. There were no discretionary contributions to the plan for the years ended December 31, 2003 and 2002.

Stock purchase plan: The Company has adopted an employee stock purchase plan to provide substantially all employees an opportunity to purchase shares of its common stock through payroll deductions of up to 15 percent of eligible compensation. The plan provides for two annual six-month phases beginning January 1 and July 1, the grant dates. On June 30 and December 31, the exercise dates, participant account balances are used to purchase shares of stock at the lesser of 85 percent of the fair value of shares on the grant date or the exercise date. The employee stock purchase plan expires December 31, 2007. A total of 100,000 shares were originally available for purchase under the plan. There were 12,522 and 11,982 shares purchased under the plan for the years ended December 31, 2003 and 2002, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 9. Major Customers, International Sales and Enterprisewide Disclosures

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

	2003	2002
Sales percentage:		
Customer A	55%	50%
Customer B	13%	17%
Accounts receivable percentage at December 31:		
Customer A	46%	34%
Customer B	6%	17%

International sales: Export sales to international customers for 2003 and 2002 were approximately \$330,000 and \$434,000, respectively. Accounts receivable from international customers were approximately \$77,000 and \$8,000 at December 31, 2003 and 2002, respectively.

Enterprisewide disclosures: The following table presents revenue from external customers for each of the Company's groups of products and services:

	Years Ended December 31	
	2003	2002
Proprietary products and services, primarily for the security/industrial, motor control and GPS market	\$ 2,616,900	\$ 2,709,200
Electronic controls and assemblies for OEM customers	16,847,200	15,388,300
	<u>\$ 19,464,100</u>	<u>\$ 18,097,500</u>

Note 10. Shareholder Rights Plan

On December 9, 2003, the Company's Board of Directors adopted a Shareholder Rights Plan. Under the plan, rights were constructively distributed as a dividend at the rate of one right for each share of common stock of the Company held by the shareholders of record as of the close of business on December 31, 2003. Each right entitles its holder to purchase one-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of \$36. The rights will only be exercisable if a person or group acquires, has the right to acquire, or has commenced a tender offer for 15 percent or more of the outstanding common stock. The rights are nonvoting, pay no dividends, expire on December 9, 2013, and may be redeemed by the Company for \$0.001 per right at any time before the 15th day (subject to adjustment) after a 15 percent position is acquired. The rights have no effect on earnings per share until they become exercisable.

After the rights are exercisable, if the Company is acquired in a merger or other business combination, or if 50 percent or more of the Company's assets are sold, each right will entitle its holder (other than the acquiring person or group) to purchase, at the then current exercise price, common stock of the acquiring entity having a value of twice the exercise price.

In connection with the adoption of the Shareholder Rights Plan, the Board of Directors has designated 60,000 shares of previously undesignated stock as Series A Junior Participating Preferred Stock. The shares have a par value of \$0.01 per share and a liquidation value equal to the greater of \$100 or 100 times the aggregate amount to be distributed per share to holders of common stock. Shares of Series A Junior Participating Preferred Stock are not convertible into shares of the Company's common stock. Each share of Series A Junior Participating Preferred Stock will be entitled to a minimum preferential quarterly dividend payment equal to the greater of \$1 per share or an aggregate dividend of 100 times the dividend declared per share of common stock. Each share of Series A Junior Participating Preferred Stock has 100 votes. In the event of any merger, consolidation or other transaction in which common stock is exchanged, each share of Series A Junior Participating Preferred Stock will be entitled to receive 100 times the amount received per share of common stock. There are no shares of Series A Junior Participating Preferred Stock outstanding.



WINLAND AT A GLANCE

- Established in 1972
- Public company in 1984 AMEX trading symbol:WEX
- In-house engineering staff for design, printed circuit board layout and continuation engineering services
- State-of-the-art, highly automated 58,000 square-foot production facility
- ISO 9001:2000 Registered ISO 13485:2003 Medical Registered
- Wide range of EMS customers in consumer products, computer hardware, industrial controls, utility equipment, wireless devices and medical instrumentation
- Proprietary standard products for the Environmental Security Market that monitor temperature, water, humidity, power, and vehicle detection



ANNUAL MEETING

of SHAREHOLDERS

DATE: May 11, 2004

TIME: 10 a.m.

LOCATION:

Best Western Hotel
& Conference Center

Highway 169 North
North Mankato, MN



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PH: 507-625-7231 FAX: 507/387-2488
www.winland.com

DIRECTORS AND EXECUTIVE OFFICERS

LORIN E. KRUEGER

CEO & President,
Secretary and Director of the Company

S. ROBERT DESSALET

Chairman of the Board of Directors

THOMAS J. de PETRA

Director of the Company

RICHARD T. SPECKMANN

Director of the Company;
CEO, Outside the Box, Inc.

JAMES L. REISSNER

Director of the Company;
COO & President of Activar, Inc.

JENNIFER A. THOMPSON, CPA

Chief Financial Officer
Treasurer of the Company

DALE A. NORDQUIST

Sr. Vice President of Sales & Marketing

TERRY E. TREANOR

Vice President of Manufacturing

STEVEN W. VOGEL

Vice President of Engineering

INVESTOR RELATIONS

HAYDEN COMMUNICATIONS, INC.

North Myrtle Beach, SC

INDEPENDENT AUDITORS

McGLADREY & PULLEN, LLP

Certified Public Accountants
Minneapolis, MN

REGISTRAR AND TRANSFER AGENT

**WELLS FARGO BANK, N.A.
SHAREOWNER SERVICES**

South St. Paul, MN

CORPORATE COUNSEL

FREDRIKSON & BYRON, P.A.

Minneapolis, MN

