March 2009

Dear Fellow Shareholders:

I would like to take this opportunity to bring you up to speed on Winland's results for the fourth quarter of 2008.

As I have in the past, in this letter I will focus primarily on a few observations about our financial results, as well as the primary drivers behind our operating performance and the ways we are approaching the current economic climate.

Let's start with the results. Our financial results this quarter continued to improve. Revenue in an extremely difficult economic environment increased modestly over the fourth quarter of 2007. Earnings were essentially flat relative to a year ago. Again, this is a net positive in our minds given the current operating environment, particularly for some of our customers.

Equally important, our working capital remains strong, and our gross margins are stable. I'm greatly encouraged by our results and the progress we continue to make.

This has been a pivotal year in Winland's history. In the past 12 months, we've addressed virtually every aspect of our business. By implementing process improvements, we've addressed our costs throughout the company, raw materials, warranty expense, inventory costs, administrative, direct and indirect labor, and so on.

We've taken out waste and inefficiencies across the board. We've become more efficient in the way we quote business, in the way we introduce customers' new products into manufacturing, manage programs and communicate with our employees, customers, and suppliers. We've also addressed our company's organization, building a team of top-notch professionals, most with 15 to 20 years in the EMS space, to lead all these efforts.

In previous announcements, we shared with you the magnitude of operational improvements we introduced, essentially starting at the beginning of our supply chain and working our way through to shipment of the finished product.

Gross margin, which was 13.9 percent in the fourth quarter, continue the trend that fell into place in the third quarter, up from 9.8 percent in the second quarter and 8.7 percent in the first quarter of 2008.

We've put into place various practices that have improved our past yields, improved our direct labor efficiencies, and decreased the cost of expediting raw material and finished goods. And these are all measures that have played a significant role in our overall profitability.

We've improved both our balance sheet and income statements by decreasing our obsolete and excess inventory expense, and decreasing our warranty costs. Specifically, we cut warranty costs on a year-over-year basis by 56 percent, and our inventory balance is down 7.8 percent.

Finally, we've wrung additional costs out of our freight expenses, our routine general and administrative expenses, and our external audit process. All of this combined, especially in the second half of the year, has had a positive impact on every aspect of our financial performance, improving our P&L, our balance sheet, and perhaps most important in this day's economy, our day-to-day cash flow and working capital.

Our Lean Six Sigma efforts and other process improvements throughout the year have reduced costs to Winland and, at the same time, improved results for customers. Every improvement initiative we have taken has been designed to go beyond the traditional customer metrics of cost, quality, and delivery by earning and building true partnerships based on trust, and complete confidence in the manufacturing, engineering, and supply chain solutions we deliver to our customers.

This includes everything from improving the way we turn around quotes to existing and prospective customers to the redesign of processes related to building prototypes and smoothly and efficiently transitioning customers' new products from engineering to manufacturing.

All these improvements wouldn't be possible if we weren't able to measure and monitor areas of improvement. In the past year, we have substantially enhanced our access to timely, relevant data that allows us to monitor our improvements in quality and efficiency, making adjustments as necessary.

We have also made big improvements in our document control process, allowing us to manage all design and documentation changes to optimize quality, cost, customer delivery and, ultimately, profitability.

As mentioned earlier, to help make all this happen we significantly strengthened our management team. We've hired two Senior Program Managers, a new Vice President of Operations and Supply Chain, a Senior Manufacturing Engineer, and we've promoted our existing Test Engineering Manager to Director of Operations.

To drive top line sales, as well as our broader customer and industry diversification process, we've hired a new Vice President of Sales, as well as two Regional Sales Managers for our proprietary business.

These individuals bring to your company the experience and industry best practices that are necessary to acquire and retain customers who will entrust their complex manufacturing, engineering, and supply chain needs to Winland.

Combined, all these efforts have had a big impact on our business, and both our employees and our customers have noticed. Since assuming this role about a year ago, I've seen this business change for the better on an almost daily basis. And moving forward, I can say that, in spite of the tough economic conditions, that Winland Electronics has more momentum, better business prospects, and a stronger business model than it ever has before.

As I look forward, I'm excited about our opportunities and believe that 2009 and beyond will bring continued success and further evidence that we're moving in the right direction.

Sincerely,

Thomas J. de Petra
President and Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _______________

Commission File No.: 1-15637

WINLAND ELECTRONICS, INC.

(Exact name of registrant in its charter)

Minnesota	41-0992135
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
1950 Excel Drive, Mankato Minnesota	56001
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (507) 625-7231

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Name of Exchange
Common Stock, $.01 par value	American Stock Exchange
Preferred Stock Purchase Rights	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes☐ No☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes☐ No☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes☑ No☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No☑

The aggregate market value of the Common Stock held by non-affiliates as of June 30, 2008 was $5,109,544 based on the closing sale price of the Issuer's Common Stock on such date.

There were 3,669,148 shares of Common Stock, $.01 par value, outstanding as of March 9, 2009.

DOCUMENTS INCORPORATED BY REFERENCE PURSUANT TO RULE 12b-23:
Portions of the Company's Proxy Statement for its 2009 Annual Meeting are incorporated by reference into Part III.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

Winland Electronics, Inc. (“Winland” or the “Company”) was incorporated as a Minnesota corporation in October 1972. Winland designs and manufactures custom electronic controls and assemblies primarily for original equipment manufacturer (“OEM”) customers, providing services from early concept studies through complete product realization. Revenues from OEM customers provided 88.2% of Winland’s total revenue in 2008. Winland continues to maintain a presence in the security/industrial markets with the sales of its own line of proprietary environmental security/industrial products, which accounted for 11.8% of Winland’s total revenue in 2008.

Segments

Winland designs, produces and distributes products in two segments defined as “Electronic Manufacturing Services (“EMS”) for OEM Customers” and “Proprietary Products,” primarily for the security/industrial markets.

Winland’s EMS segment consists of the design and manufacture of printed circuit board assemblies and higher level products sold mainly to OEM customers. Winland offers complete solutions to OEM customer needs by providing value-added services that complement its contract manufacturing capabilities. This is part of a “concept to product realization” strategy, the elements of which may include product concept studies, product design, printed circuit board design, design for manufacturing, higher level assembly and box build, repair service, and legacy support. These services differentiate Winland from many of its competitors and are intended to increase customer satisfaction, confidence, and loyalty. Winland views EMS customers as strategic partners and works to provide these partners with high level customer care and technical services.

Winland’s Proprietary segment represents an established family of environmental security and industrial products that can monitor critical environments including simple and sophisticated microprocessor and mechanically controlled sensors and alarms. These products monitor and detect critical environmental changes, such as changes in temperature or humidity, water leakage and power failures.

The Company’s remaining activities are included in “Other”. Unallocated corporate level expenses, which include costs related to the administrative functions performed in a centralized manner and not attributable to particular segments (e.g., executive compensation expense, accounting, human resources and information technology support), are reported in the reconciliation of the segment totals to consolidated totals as “Other” items.

Distribution

Winland markets its design and manufacturing services to prospective OEM customers primarily through direct sales and marketing efforts to promote its services and uncover new opportunities. Winland’s management believes that its direct sales force effectively provides Winland an opportunity to gain market share in targeted market segments within the EMS industry. One of Winland’s key marketing and growth objectives is to form long-term business partnerships with prospective OEM customers by working directly with the customer to provide design and manufacturing value propositions and fulfillment strategies that align with the customer’s products and business models, thereby creating a degree of technological interdependence between Winland and its customer. With this in mind, Winland has worked to identify new OEM customers that need a broad range of EMS services in addition to their manufacturing needs. Winland plans to achieve continued growth in EMS sales by providing its OEM customers a strong value proposition, with a customer intimate strategy that is centered in exceptional service, application specific technical expertise, exceptional quality and a strategic business model alignment.

Winland markets its proprietary products through dealers and wholesalers, in-house direct marketing and sales efforts, instrumentation catalogs, and national and regional trade expositions. Currently, Winland sells its environmental security/industrial products through a distribution network predominantly located in the United States as well as in Canada, Mexico, and Europe. Winland continues to explore opportunities to expand into additional markets with its proprietary product lines, as well as designing new products.

Competition

Winland's business includes the design and manufacture of custom electronic controls and assemblies for OEM customers and the development and marketing of proprietary security/industrial products. The competition for the contract design and manufacturing services Winland offers is very competitive, both domestically and internationally. To enhance its ability to compete effectively, Winland continues to invest in the development of its work force and technically advanced design, production and test equipment. Winland distinguishes itself from many of its competitors by offering full service strategic fulfillment solutions to its contract design and manufacturing customers.

Significant competitive factors in this market include development and design expertise, quality of manufacturing, price, capacity, strategic alignment and company reputation. Winland believes that it performs favorably with respect to these competitive factors in the markets it serves. Winland's competitors with operations in Asia can offer more aggressive pricing, and have greater capacity, than it does. Competition among the security/industrial products has increased in the last several years as additional companies have introduced competing products.

Significant competitive factors in the market for security/industrial products include product effectiveness and features, price, reliability and company reputation. Winland believes that it competes favorably with respect to product effectiveness, features, price and reliability. However, given its size and relatively small presence in this market, many of its competitors have an advantage by being larger, better-known and better-financed.

Source of Raw Materials

Raw material components and some subassemblies are purchased from outside vendors, monitored through a vendor qualification process and inspected in accordance with Winland's inspection policies before being incorporated into products. Certain purchased components and subassemblies are manufactured to design specifications furnished by Winland, while others are standard off-the-shelf items. Winland utilizes multiple sources for the off-the-shelf components, but generally maintains only one source for the items manufactured to design specifications. However, alternative sources are available should our existing source be unable to perform. In addition to manufacturing its own products, Winland has contracted with companies to provide both finished goods assemblies and component assemblies designed to their specifications.

Significant Customers

Winland has worked to develop long-term, mutually beneficial relationships with its OEM customers. Due to the nature of Winland's contract manufacturing relationships, there is a significant degree of dependence between these customers and Winland. Net sales to XATA Corporation (XATA) were $9.5 million, or 33.2% of total net sales in 2008 and $6.7 million, or 19.2% of total net sales in 2007. XATA is a Minnesota based onboard fleet management solutions provider for the trucking industry. Net sales to Select Comfort Corporation (Select) were $4.5 million, or 15.9% of total net sales in 2008 and $6.9 million, or 20.0% of total net sales in 2007. Select Comfort is a Minnesota based air-sleep system manufacturer in the bedding industry. Net sales for Fluke Corporation (Fluke) were $3.2 million, or 11.0% of total net sales in 2008 and $6.4 million, or 18.5% of total net sales in 2007. Fluke is a global leader in the manufacture of compact, professional electronic test tools, and is based in Washington. No other customer equaled or exceeded 10% of net sales for 2008 or 2007.

During the fourth quarter of 2008, Select notified Winland of its intentions to let the Master Supply Agreement between the companies expire on March 20, 2009. Select indicated it would be transitioning back to a single source supplier other than Winland for its electronic assemblies. After initial transition discussions, Winland proposed an accelerated plan with Select and its single source supplier to sell raw and finished goods inventory specific to Select, to the new supplier by the end of February 2009. The plan reduces Winland's costs associated with Select transitioning to a single source supplier as well as mitigates the risk of supply chain interruptions for Select during what could have been a lengthy transition. As of December 31, 2008, Winland reduced its inventory values for raw and finished goods specific to Select by 14.5% or $134,000 to its estimated net realizable value.

In 2008, approximately 48.8%, or $1.6 million of all of the Company's proprietary products sales were to one of the world's largest security products distributors, up from 43.4%, or $1.3 million in 2007.

Winland derived less than 1% of its revenues from sales outside the United States for the years ended December 31, 2008 and 2007.

Patents, Trademarks and Licenses

Winland holds federal trademark registrations for marks used in its business as follows: WATERBUG, TEMP ALERT, ENVIRONMENTAL SECURITY and ENVIROALERT.

Research and Development

Throughout 2008, Winland worked to provide complete product realization services to its OEM customers for design of industrial and medical products to be manufactured by Winland. Winland's product realization services include: product requirements specification; analog and digital circuit design, low power radio frequency design; embedded software design; mechanical design, 3D modeling, and custom enclosure design; printed circuit board design, rapid prototyping, production test equipment development, design for testability and design for manufacturability. Winland believes that with its internal engineering capability and approved outside engineering consultants it will be able to meet the current needs of its customer base. OEM customer R&D programs generated $1,041,000 of net sales in 2008 compared to $714,000 of net sales in 2007. In addition, Winland spent $309,000 in 2008 developing or improving its proprietary products compared to $765,000 in 2007. This decrease in R&D was related to the completion of a new product release in early 2008.

Personnel

At December 31, 2008, Winland had 122 employees (106 full time and 16 part time). During 2008 and 2007, Winland also used temporary labor services during peak production times. Winland is not subject to a collective bargaining agreement and considers its relations with its employees to be good.

ITEM 1A. RISK FACTORS

Based on current and known information, Winland believes that the following identifies the most significant risk factors that could affect its business. However, the risks and uncertainties Winland faces are not limited to those discussed below. There could be other unknown or unpredictable economic, business, competitive or regulatory factors, including factors that Winland currently believes to be immaterial, that could have material adverse effects on Winland's financial position, liquidity, and results of operations. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

You should consider the following risk factors, in addition to other information presented or incorporated by reference into this Annual Report on Form 10-K in evaluating our business and your investment in us.

Winland is dependent on a small number of customers.

Winland's Electronic Manufacturing Services (EMS) product sales are dependent on a small number of original equipment manufacturer (OEM) customers with the top two customers together representing 44% of total Company sales. Accordingly, Winland is dependent on the continued growth, viability and financial stability of its largest customers, which consist of original equipment manufacturers of fleet management global positioning systems (GPS) and test and precise measurement equipment. Winland generally does not obtain firm, long-term purchase commitments from its customers, and has often experienced reduced lead times in customer orders. Customers may cancel their orders, change production quantities, and delay production for a number of reasons. Uncertain economic conditions have resulted, and may continue to result, in some of Winland's customers delaying the delivery of some of the products manufactured for them and placing purchase orders for lower volumes of products than previously anticipated. Cancellations, reductions, or delays by a significant customer or by a group of customers have harmed, and may continue to harm, Winland's results of operations by reducing the volumes of products manufactured, as well as by causing a delay in the recovery of its expenditures for inventory in preparation for customer orders and lower asset utilization resulting in lower gross margins.

Winland is subject to intense competition in the EMS industry.

Winland competes against many providers of electronics manufacturing services. Certain competitors have substantially greater resources and geographically diversified United States and international operations. Winland may also be at a competitive disadvantage with respect to price when compared to manufacturers with lower cost structures and enhanced volume supplier purchasing capability. Accordingly, to compete effectively, Winland must continue to provide technologically advanced manufacturing services, maintain strict quality standards, respond flexibly and rapidly to customers' design and schedule changes and deliver products on a reliable basis at competitive prices. Customers may cancel their orders, change production quantities or delay production. Start-up costs and inefficiencies related to new or transferred programs can adversely affect operating results and such costs may not be recoverable if such new programs or transferred programs are cancelled.

Winland's operating results may vary significantly from period to period.

Winland experiences fluctuations in its operating results. Some of the principal factors that contribute to these fluctuations are: Winland's effectiveness in managing manufacturing processes, costs and availability of components so that components are available when needed for production, while mitigating risks of purchasing inventory in excess of immediate production needs; the degree to which Winland is able to utilize its available manufacturing capacity; changes in the cost and availability of components, which often occur in the electronics manufacturing industry and which affect Winland and its ability to meet delivery schedules; and changes in demand for Winland's products. Results of operations in any period, therefore, should not be considered indicative of the results to be expected for any future period.

Winland's operating results, financial condition and cash flows may be adversely impacted by the affect the current global economic crisis has on its customers.

The current economic crisis has severely impacted banks and other lenders, limiting the ability of many businesses to the access of credit markets. Winland's customers may choose to delay or postpone purchases of products from Winland until the economy and their businesses strengthen and this may affect its operating results, financial condition and delay and lengthen sales cycles. Winland cannot predict the timing, strength or duration of the recession. A prolonged recession or further decline in the global economy could have a material adverse affect on Winland's results of operations and financial condition.

The current capital and credit market conditions may adversely affect our access to capital, cost of capital and business operations.

The general economic and capital market conditions in the United States have deteriorated significantly and have adversely affected businesses access to capital as well as an increased cost of such capital. If the current economic conditions in the United States continue or become worse, Winland's cost of debt and equity capital and the access to capital markets could be adversely affected. Although Winland currently has access to $3,214,000, pursuant to its line of credit agreement with M&I Bank, this line of credit expires in June 2009. Although M&I has granted one year extensions on the line of credit on identical terms in the past, there can be no assurance that M&I will do so in the future, and if it does grant extensions, there can be no assurance that the terms of such extensions will not be on terms that are more burdensome and/or costly to Winland.

Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations.

Winland requires effective internal control over financial reporting in order to provide reasonable assurance with respect to its financial reports and to effectively prevent fraud. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurances with respect to the preparation and fair presentation of financial statements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. DESCRIPTION OF PROPERTY

Winland owns its office and manufacturing facility located in Mankato, Minnesota. The 58,000 square foot building consists of 32,500 square feet of manufacturing space, 10,000 square feet of warehouse space and 15,500 square feet of office space, and, all of which is used by Winland. Management believes the current facility adequately supports its current and near future operations. Management carries insurance on its property and believes it is adequately covered. The office and manufacturing facility has a gross book value of $3,050,000 and is subject to a mortgage with an aggregate debt of $649,000 as of December 31, 2008.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE COMPANY

The name and ages of all of the Company's executive officers and the positions held by them are listed below.

Name	Age	Position
Thomas J. de Petra	62	President and Chief Executive Officer
Glenn A. Kermes	48	Executive Vice President and Chief Financial Officer
Warren E. Mitchell	48	Vice President of Operations and Supply Chain
David A. Kuklinski	47	Vice President of Sales and Marketing
Gregory W. Burneske	47	Vice President of Engineering

Thomas J. de Petra was appointed CEO and President on May 6, 2008, and has been a Director of the Company since 1994. He is the founder and president of Vantage Advisory Services LLC, providing management consulting and business advisory services. While serving as a self-employed management consultant during the past 12 years, Mr. de Petra has served in various interim executive officer roles. He also served as Chief Executive Officer of Nortech Forest Technologies, Inc., a publicly traded company, from February 1996 to June 1997.

Glenn A. Kermes has served as the Company's Chief Financial Officer since October 2, 2006 and was promoted to Executive Vice President on January 9, 2009. Between September 2004 and June 2006, Mr. Kermes served as Vice President and Chief Financial Officer of Ross Manufacturing, a manufacturer of frozen dessert equipment in Escanaba, Michigan. From January 2004 to September 2004, Mr. Kermes served as the North American Controller for the Kendro Division of SPX Corporation, a publicly traded consumer goods company. Mr. Kermes served as Worldwide Operations Controller of the Hand Tools Division of Newell Rubbermaid, a publicly traded consumer goods company with manufacturing operations, from July 2002 to January 2004; and he served as Controller for Continental Teves, an automotive tier one supplier, from June 2000 to July 2002. Prior to June 2000, Mr. Kermes served in financial positions with various companies.

Warren E. Mitchell joined the Company in February 2008 as its Executive Supply Chain Leader and was promoted to Vice President of Operations and Supply Chain in June 2008. From April 2005 to June 2007, Mr. Mitchell served as Head of Worldwide Supply Chain Management for HiRel Systems. From March 2001 to April 2005, Mr. Mitchell served as Vice President Worldwide Supply Chain Management/Strategic Materials for Pemstar an EMS provider. Prior to that, Mr. Mitchell held engineering and operational management positions at several large multi-national Electronic companies.

David A. Kuklinski joined the Company in September of 2008 as Director of Sales and Marketing and was promoted to Vice President of Sales and Marketing in December 2008. From July 2007 to September 2008, Mr. Kuklinski served as Business Development Director for ATS Automation an industrial and medical repetitive equipment manufacturer. From March 2005 to March 2006, Mr. Kuklinski served as Business Development Director for Solectron Corporation. From May 2002 to December 2004, Mr. Kuklinski served as Business Development Director for Jabil Circuit, Inc. an EMS provider. From August 1992 to May 2002, Mr. Kuklinski served as Business Development Director and various other positions for Benchmark Electronics Inc. an EMS provider.

Greg Burneske joined the Company in May of 2004 as the Director of Engineering Services and on January 3, 2006 was promoted to Vice President of Engineering. Prior to joining Winland, he was Manager of Analog and RF Systems Group with Plexus Corp., a top tier contract manufacturer with product development capability. During his tenure at Plexus, Mr. Burneske was responsible for managing new product development with an emphasis on wireless medical device development, as well as design process quality, operations and new business development efforts. Mr. Burneske's product development experience includes industrial, consumer, automotive, wireless and medical devices.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Winland'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 market closes, as reported by AMEX during 2008 and 2007.

Fiscal Year Ended December 31, 2008	Low	High
First Quarter	$ 1.95	$ 2.44
Second Quarter	$ 1.52	$ 2.08
Third Quarter	$ 0.89	$ 1.60
Fourth Quarter	$ 0.39	$ 0.95

Fiscal Year Ended December 31, 2007	Low	High
First Quarter	$ 3.30	$ 4.71
Second Quarter	$ 3.13	$ 3.71
Third Quarter	$ 2.00	$ 3.25
Fourth Quarter	$ 2.11	$ 2.83

On March 9, 2009, the fair market value of Winland's Common Stock was $0.45 based on the closing sale price quoted by AMEX on that date. As of December 31, 2008, Winland had approximately 389 registered shareholders of record.

Winland has never paid cash dividends on its Common Stock. The Board of Directors presently intends to retain earnings for use in its 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 Winland, restrictive debt covenants and such other factors as are deemed relevant by the Board of Directors.

ITEM 6: SELECTED FINANCIAL DATA

None.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

EXECUTIVE SUMMARY

Organizational Realignment

Following a January 2008 CEO transition; we initiated a significant organizational realignment of our manufacturing, operations and materials groups late in the first quarter. The objective of the realignment was to improve financial performance by reducing inefficiencies in manufacturing and operations, improving quality and on-time delivery to customers, enhancing customer retention and improving our customers' overall experience with Winland. This realignment required building a more experienced, effective leadership team by attracting new talent with extensive experience in the EMS industry, better utilizing existing talent and providing the team with more timely and relevant data to monitor and manage the business. During the first half of 2008, our leadership team was tasked to establish "best in class" manufacturing and operations practices and processes that could support a high growth business model combining organic growth and future growth by acquisitions. The result was the first phase of change initiatives to enhance program management, information systems, documentation, new product introduction (NPI), quotation and inventory management. This organizational realignment was followed by the September 2008 hire of an experienced EMS sales professional, who was promoted to Vice President of Sales and Marketing in December 2008.

During the third and fourth quarters of 2008, we further expanded productivity and quality enhancement programs through the adoption of formal Lean/Six Sigma manufacturing and focused investment in employee development programs. All such programs are designed to reduce variations in our manufacturing processes and reduce or eliminate negative variances in the cost of labor and materials compared to estimated costs.

Evidence of Operational Improvements and Leadership Team Changes on Third and Fourth Quarter Financial Performance

Both long lead-times for the procurement of many electronic components, as well as the long sales cycles associated with OEM customers changing electronic supply chain partners can delay by many months the financial impact of operational improvement programs and leadership team changes. However, improvement programs related to program management, quality and waste elimination that were initiated during the year enabled us to reduce warranty expense and obsolete inventory expense by nearly $1 million in 2008 compared to the previous year. Overall operational improvements enabled us to maintain gross profit margin performance at a level state, despite a reduction of net sales of approximately $6 million from 2007.

Sales Efforts

Under the leadership of our new Vice President of Sales and Marketing, we continue our efforts to expand and further diversify our EMS customer portfolio which currently includes products in the transportation, industrial, instrumentation, medical, telecom and consumer market sectors. We will continue to be proactive and strategic in understanding current and prospective customer's business models, global design and manufacturing fulfillment needs and business drivers to improve the success of the customer with their respective product market share as well as strengthening our position with each customer and growth within targeted market segments.

Our design engineering capability continues to be a significant differentiator from EMS providers similar to our size, and helps customers lower costs and mitigate the risk of manufacturing new products by tightly integrating design engineering, prototyping, test engineering and the manufacturing process. During 2008, we completed a major engineering design project for a new customer, and transitioned that product into manufacturing. The customer engaged our design engineering department for a second design project that is slated to commence manufacturing in the first quarter of 2009. In addition, we have three other engineering design customers whose projects are expected to transition to Winland manufacturing in 2009.

During the fourth quarter, we established new marketing programs for Winland's proprietary products and realigned sales responsibilities for both domestic and international sales activities by creating separate eastern and western sales regions. In addition, we hired an experienced eastern sales manager and, subsequent to year end, hired a second sales professional to manage the western region.

As of December 31, 2008, our OEM customers had placed purchase orders with an aggregate value of $12.6 million for delivery during 2009. For comparative purposes, we had purchase orders with an aggregate value of $16.1 million as of September 30, 2008, $15.1 million as of June 30, 2008, $11.4 million as of March 31, 2008 and $17.4 million as of December 31, 2007. Historically, we receive additional build-to-order and recurring blanket orders from our current OEM customers for future production and engineering services. While the value and timing of purchase orders can vary during the year, our order backlog is down primarily due to Select Comfort's expiring contract and timing of purchase orders received from another significant customer.

A Decrease in Sales

The positive impact of existing customer growth, new customer relationships and design engineering projects are being offset by the combined effect of declining orders from two of our three largest customers during 2008 totaling $5.6 million, and the lack of approximately $4.3 million of sales which occurred in 2007 from two customers whose expectations and business management systems did not align well with our value proposition.

RESULTS OF OPERATIONS – 2008 vs. 2007

The Company reported a net loss of $1,028,000 or $0.28 per basic and diluted share for the twelve months ended December 31, 2008 compared to the $263,000 net loss or $0.07 per basic and diluted share for the same period in 2007. The increase in net loss was driven by a $6,081,000 decrease in net sales compared to a year ago. Under utilization of manufacturing fixed costs due to lower sales was the primary reason for the increased loss.

Net Sales

Net sales for the twelve months ended December 31, 2008 were $28,665,000 down $6,081,000 or 22% compared to the same period in 2007. EMS net sales declined 20%, or $6,289,000 to $25,295,000 during 2008, compared to a year ago. Of this decrease, $5,648,000 is due to decreased customer demand from two of our three largest customers. In addition, phase out of sales from two customers caused sales to decline $4,270,000 compared to the same period a year ago. These reductions were offset in part by increased sales of $2,840,000 to our largest customer and sales to a new medical customer of $964,000. Proprietary Products net sales rose 7% to $3,281,000, a $206,000 increase compared to a year ago. Sales to our largest distributor were up $266,000 compared to 2007.

Operating Loss

The Company reported an operating loss of $1,017,000 and $620,000 for the years ended December 31, 2008 and 2007, respectively. Gross margin percentage of 12.2% in 2008 was consistent with the 12.1% reported for 2007. Year over year gross margin consistency was the result of significantly reduced warranty and obsolescence expenses of $909,000, reductions in wages and benefits of $130,000 and lower depreciation expenses of $66,000. These reductions offset the under utilization of manufacturing fixed costs for 2008.

The Company's EMS segment operating income was down $660,000 or 37.5% to $1,099,000 for 2008 compared to operating income reported a year ago primarily due to decreased sales and the underutilization of manufacturing fixed costs. EMS gross margins were 7.3% and 7.8% for 2008 and 2007, respectively. Included in the gross margin percentage of 7.3% are two specific charges totaling $379,000. The first of these specific reserves relate to the valuation adjustment of $134,000 on inventory expected to be sold to Select Comfort's single source supplier. The other reserve relates to a customer who, due to a lack of payment history and future finished goods purchase orders, management determined the customer will not be able to honor its obligations to the Company. As a result, the Company reserved for one hundred percent (100%) of both of this customer's delinquent aged receivables of $102,000 and raw and finished goods inventories of $143,000 as of December 31, 2008.

The Company's Proprietary Products segment operating income decreased $173,000 for 2008, to $127,000 compared to a year ago. Increased manufacturing costs caused gross margins to fall from 50.9% in 2007 to 40.7% in 2008. Additionally, operating income was reduced by increased salaries expense, travel related expenses and advertising expenses offset by reduced new product development expenses.

For 2008, General and Administrative expenses decreased $374,000 due to reduced salaries expense, professional fees, consulting expense and travel related expenses partially offset by business and occupation tax expense. The reduced salaries expense was related to the CEO severance package included in the December 31, 2007 financial statements. These expenses are shown as "Other" as discussed in Note 2 to the Financial Statements.

Interest Expense and Other, Net

Interest expense and other consists primarily of interest expense and miscellaneous income. Interest expense for 2008 was $126,000 compared to $261,000 during the same period a year ago. This decrease relates to the reduced usage of the Company's revolving line-of-credit during 2008 compared to 2007.

Income Tax

Winland 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. During 2008, Winland recorded a $271,000 tax valuation allowance related to its deferred tax assets. For 2008, the Company recognized income tax benefit of $89,000, primarily the result of the valuation allowance on its net deferred tax assets. As discussed in Note 6 to the Financial Statements, income tax benefits were calculated using an estimated annual blended federal and state income tax rate of (8)% and (67)% for 2008 and 2007, respectively.

LIQUIDITY AND CAPITAL RESOURCES

For 2008, the Company's operating activities used cash of $74,000 as its net operating loss and changes in working capital were almost entirely offset by non-cash adjustments for depreciation, stock compensation and deferred taxes. In comparison, operating activities provided cash of $3,833,000 from the reduction of accounts receivable and inventory balances offset by decreases in accounts payable for 2007. Cash used in investing activities was used to acquire capital equipment with a book cost of $237,000 and $228,000 for 2008 and 2007, respectively. Cash of $512,000 and $660,000 for 2008 and 2007, respectively, was used to pay down long term debt. For 2007, $1,924,000 of cash was used to pay down the Company's revolving line-of-credit. Cash provided from the exercise of stock options and issuance of common stock was $27,000 and $51,000 for 2008 and 2007, respectively.

The current ratio was 2.8 to 1 at December 31, 2008 and 3.1 to 1 at December 31, 2007. Working capital equaled $6.0 million on December 31, 2008, compared to $7.0 million on December 31, 2007.

On June 30, 2008 Winland extended its revolving credit agreement to June 30, 2009. No advances were outstanding on the revolving credit agreement at December 31, 2008 or 2007. At December 31, 2008, $3,193,000 was available for borrowing under the terms of this agreement compared to $4,000,000 available as of December 31, 2007.

Management believes that its 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 working capital, investing and financing activities during the next twelve months assuming the line of credit is extended at June 30, 2009. Current conditions in the capital markets are uncertain; however, management believes the Company will have adequate access to capital markets to fund such cash requirements.

CRITICAL ACCOUNTING 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. Winland cannot assure you that actual results will not differ from those estimates. Winland believes the following are the most critical judgments and estimates used in the preparation of its financial statements.

Revenue Recognition. In most cases, 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.

A portion of the Company's business involves shipping product to a primary customer's location where it is held in a separate warehouse. Revenue is recognized when that customer notifies Winland that the inventory has been removed from the warehouse and title to the product is transferred.

Revenue recognition occurs for engineering design services as services are completed. Winland has an agreement with one particular customer to amortize the cost of engineering design services as part of the piece part cost of the manufactured unit. For the years ended December 31, 2008 and 2007, the customer has paid Winland approximately $31,000 and $181,000, respectively for these services which have yet to be amortized into manufactured units. These payments are classified as unearned revenue and recorded in Other Accrued Expenses on the balance sheet as of December 31, 2008 and 2007, respectively.

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. For all sales, Winland either has a binding purchase order or customer accepted and signed engineering quote as evidence of the arrangement. Winland does not generally accept returns but does provide a limited warranty as outlined below under Allowance for Rework and Warranty Costs.

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 inventories was $569,000 and $460,000 as of December 31, 2008 and 2007, respectively.

Allowance for Doubtful 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. Bad debt expenses for the year ended December 31, 2008 and 2007 were $109,000 and $31,000, respectively. The Allowance for Doubtful Accounts was $127,000 and $25,000 at December 31, 2008 and 2007, respectively.

Allowance for Rework and Warranty Costs. Winland provides a limited warranty to its OEM customers who require us to repair or replace product that is defective, due to Company workmanship issues, at no cost to the customer. In addition, Winland provides a limited warranty for its proprietary 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 specific customer 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 $80,000 and $160,000 as of December 31, 2008 and 2007, respectively. The product warranty liability reflects management's best estimate of probable liability under Winland's product warranties and may differ from actual results.

Deferred 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 carry-forwards, 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 carry-forwards are to be available to reduce taxable income. As of December 31, 2008, Winland recorded a $271,000 tax valuation allowance related to our deferred tax assets.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* ("SFAS 141R"). Among other things, SFAS 141R requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction at fair value as of the acquisition date. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This standard will change our accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 requires all entities to report noncontrolling interests as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of this statement will have a significant impact on its financial position or results of operations.

CAUTIONARY STATEMENTS

Certain statements contained in this Annual Report on Form 10-K and other written and oral statements made from time to time by Winland do not relate strictly to historical or current facts. As such, they are considered "forward-looking statements" that 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. Winland's forward- looking statements generally relate to its purchase order levels, building market share in the EMS market, growth strategies, financial results, product development, sales efforts and sufficiency of capital. 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 from results or circumstances described in such forward-looking statements. As provided for under the Private Securities Litigation Reform Act of 1995, Winland wishes to caution investors that the following important factors, among others, in some cases have affected and in the future could affect Winland'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 Winland.

- Winland derives a significant portion of its revenues from a limited number of OEM customers that are not subject to long-term contracts with Winland;
- although Winland constantly strives to diversify its customer base, currently if any significant customers should materially decrease the volume of their business or stop doing business with Winland, for whatever reason, Winland's business could be adversely affected;
- some of Winland'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;
- the current economic crisis in the United States has had a negative impact on nearly all businesses, including Winland's customers;
- Winland's current customers may choose to delay or postpone purchases of products from Winland until the economy and their businesses strengthen and this may affect Winland's operating results, financial condition and delay and lengthen sales cycles;
- an overall decline in economic activity may also have a negative impact on Winland's customer's ability to pay it for the products or services they purchase from Winland;
- Winland'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;
- Winland's ability to compete successfully depends, in part, upon the price at which Winland is willing to manufacture a proposed product and the quality of its design and manufacturing services;
- there is no assurance that Winland 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 it from achieving the growth it anticipates;
- Winland's ability to execute its initiatives to increase sales and expand market share depends upon its ability to develop additional value added capabilities and/or proprietary products and technologies and on the availability of sufficient financing, both equity and debt, to meet fixed and variable costs associated with such growth;
- due to the current economic crisis in the United States, there can be no assurances that Winland will have access to sufficient financing to support increased sales or an expanding market; and
- Winland's success in providing an improved mix of higher margin products and services depends on the effectiveness of its new product development and planning efforts.

In addition, see "Risk Factors" under Item 1A, which includes a discussion of additional risk factors and a more complete discussion of some of the cautionary statements noted above.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are at the pages set forth below:

McGladrey & Pullen
Certified Public Accountants

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Winland Electronics, Inc.

We have audited the accompanying balance sheets of Winland Electronics, Inc. as of December 31, 2008 and 2007, and the related statements of operations, 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 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. 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of Winland Electronics Inc.'s internal control over financial reporting as of December 31, 2008 included in the Company's Annual Report under the caption "Management's Report on Internal Control over Financial Reporting" and, accordingly, we do not express an opinion thereon.

/s/ McGladrey & Pullen LLP

Minneapolis, Minnesota
March 17, 2009

Winland Electronics, Inc.
Balance Sheets
December 31, 2008 and 2007
(In Thousands, Except Share Data)

	December 31,	
Assets (Note 4)	**2008**	2007
Current Assets		
Cash and cash equivalents	$ 356	$ 1,152
Accounts receivable, less allowance for doubtful accounts of $127 in 2008 and $25 in 2007 (Note 9)	3,901	3,436
Refundable income taxes	595	389
Inventories (Note 3)	4,337	4,708
Prepaid expenses and other assets	231	253
Deferred income taxes (Note 6)	-	400
Total current assets	9,420	10,338
Property and Equipment, at cost (Note 4)		
Land and land improvements	383	383
Building	3,052	3,052
Machinery and equipment	7,028	6,798
Data processing equipment	1,183	1,128
Office furniture and equipment	466	466
Total property and equipment	12,112	11,827
Less accumulated depreciation	7,201	6,410
Net property and equipment	4,911	5,417
Total assets	$ 14,331	$ 15,755

See Notes to Financial Statements.

Winland Electronics, Inc.
Balance Sheets
December 31, 2008 and 2007
(In Thousands, Except Share Data)

	December 31,	
Liabilities and Stockholders' Equity	**2008**	2007
Current Liabilities		
Current maturities of long-term debt (Note 4)	**$ 392**	**$ 512**
Accounts payable	**2,457**	**1,729**
Accrued liabilities:		
Compensation	**446**	**733**
Other	**121**	**379**
Total current liabilities	**3,416**	**3,353**
Long-Term Liabilities		
Long-term debt, less current maturities (Note 4)	**1,079**	**1,471**
Deferred income taxes (Note 6)	**-**	**282**
Deferred revenue (Note 5)	**130**	**138**
Other long term tax liabilities	**129**	**129**
Total long-term liabilities	**1,338**	**2,020**
Total liabilities	**4,754**	**5,373**
Commitments and Contingencies (Notes 7, 8 and 10)		
Stockholders' Equity (Notes 7 and 10)		
Common stock, par value $0.01 per share; authorized 20,000,000 shares; issued and outstanding 3,669,148 shares in 2008 and 3,640,741 shares in 2007	**37**	**36**
Additional paid-in capital	**4,913**	**4,691**
Retained earnings	**4,627**	**5,655**
Total stockholders' equity	**9,577**	**10,382**
Total liabilities and stockholders' equity	**$ 14,331**	**$ 15,755**

See Notes to Financial Statements.

Winland Electronics, Inc.
Statements of Operations
Years Ended December 31, 2008 and 2007
(In Thousands, Except Share Data)

	December 31,	
	2008	2007
Net sales (Note 9)	**$ 28,665**	$ 34,746
Cost of sales	**25,175**	30,542
Gross profit	**3,490**	4,204
Operating expenses:		
General and administrative	**2,243**	2,617
Sales and marketing	**1,392**	1,158
Research and development	**872**	1,049
	4,507	4,824
Operating loss	**(1,017)**	(620)
Other income (expenses):		
Interest expense	**(126)**	(261)
Other, net	**26**	89
	(100)	(172)
Loss before income taxes	**(1,117)**	(792)
Income tax benefit (Note 6)	**89**	529
Net loss	**$ (1,028)**	$ (263)
Loss per common share data:		
Basic and diluted	**$ (0.28)**	$ (0.07)
Weighted-average number of common shares outstanding:		
Basic and diluted	**3,649,661**	3,615,108

See Notes to Financial Statements.

Winland Electronics, Inc.
Statements of Changes in Stockholders' Equity
Years Ended December 31, 2008 and 2007
(In Thousands, Except Share Data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total
Balance on December 31, 2006	**3,599,856**	**$ 36**	**$ 4,429**	**$ 5,918**	**$ 10,383**
Issuance of common stock in accordance with employee stock purchase plan (Note 7)	10,365	-	24	-	24
Issuance of common stock in accordance with employee stock option plan (Note 7)	30,520	-	27	-	27
Stock-based compensation expense for employee stock purchase plan	-	-	11	-	11
Stock-based compensation expense for stock options	-	-	167	-	167
Tax benefit from disqualifying disposition of stock options	-	-	10	-	10
Stock-based expense for warrants (Note 7)	-	-	23	-	23
Net loss	-	-	-	(263)	(263)
Balance on December 31, 2007	**3,640,741**	**$ 36**	**$ 4,691**	**$ 5,655**	**$ 10,382**
Issuance of common stock in accordance with employee stock purchase plan (Note 7)	8,800	-	11	-	11
Issuance of common stock in accordance with employee stock option plan (Note 7)	19,607	1	15	-	16
Stock-based compensation expense for employee stock purchase plan	-	-	9	-	9
Stock-based compensation expense for stock options	-	-	187	-	187
Net loss	-	-	-	(1,028)	(1,028)
Balance on December 31, 2008	**3,669,148**	**$ 37**	**$ 4,913**	**$ 4,627**	**$ 9,577**

See Notes to Financial Statements.

Winland Electronics, Inc.
Statements of Cash Flows
Years Ended December 31, 2008 and 2007
(In Thousands of Dollars)

	2008	2007
Cash Flows From Operating Activities		
Net loss	**$ (1,028)**	$ (263)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	**817**	879
Non-cash stock based compensation	**196**	178
Deferred taxes	**118**	(95)
Consulting expense, non-cash warrants	**-**	23
Loss on disposal of equipment	**-**	1
Changes in operating assets and liabilities:		
Accounts receivable	**(465)**	1,729
Refundable income taxes	**(206)**	(152)
Inventories	**371**	2,286
Prepaid expenses and other assets	**22**	111
Accounts payable	**654**	(1,101)
Accrued liabilities, including deferred revenue and other long term tax liabilities	**(553)**	237
Net cash provided by (used in) operating activities	**(74)**	3,833
Cash Flows From Investing Activities		
Purchases of property and equipment	**(237)**	(228)
Proceeds from sale of property and equipment	**-**	20
Net cash used in investing activities	**(237)**	**(208)**
Cash Flows From Financing Activities		
Net payments on revolving credit agreement	**-**	(1,924)
Net principal payments on long-term borrowings, including capital lease obligations	**(512)**	(660)
Proceeds from issuance of common stock	**27**	51
Tax benefit from options exercised	**-**	10
Net cash used in financing activities	**(485)**	(2,523)
Net increase (decrease) in cash	**(796)**	1,102
Cash and cash equivalents		
Beginning of year	**1,152**	50
End of year	**$ 356**	$ 1,152
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	**$ 124**	$ 276
Supplemental Schedule of Noncash Investing and Financing Activities		
Acquisition of property and equipment in accounts payable	**$ 74**	$ -
Acquisition of property and equipment under capital lease	**$ -**	$ 310

See Notes to Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Winland Electronics, Inc. ("Winland" or the "Company") designs and manufactures custom electronic controls and assemblies primarily for original equipment manufacturer ("OEM") customers, providing services from early concept studies through complete product realization. The Company operates in two reportable segments as defined by Statement of Financial Accounting Standards ("SFAS") No. 131 "Disclosures about Segments of an Enterprise and Related Information"; Electronic Manufacturing Services (EMS) and Proprietary Products (Proprietary).

A summary of Winland's significant accounting policies follow:

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, and doubtful accounts. Winland cannot assure that actual results will not differ from those estimates.

Revenue Recognition. In most cases, 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.

A portion of the Company's business involves shipping product to a primary customer's location where it is held in a separate warehouse. Revenue is recognized when that customer notifies Winland that the inventory has been removed from the warehouse and title to the product is transferred.

Revenue recognition occurs for engineering design as services are completed. Winland has an agreement with one particular customer to amortize the cost of engineering design services as part of the piece part cost of the manufactured unit. For the years ended December 31, 2008 and 2007, the customer paid Winland approximately $31,000 and $181,000, respectively for these services which have yet to be fully amortized into manufactured units. These payments are classified as unearned revenue and recorded in Other Accrued Liabilities on the balance sheet.

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. For all sales, Winland either has a binding purchase order or customer accepted and signed engineering quote as evidence of the arrangement. Winland does not generally accept returns but does provide a limited warranty as outlined below under Allowance for Rework and Warranty Costs.

Cash and cash equivalents: Cash and cash equivalents include money market mutual funds and other highly liquid investments. 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. 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. Bad debt expenses for the year ended December 31, 2008 and 2007 were $109,000 and $31,000, respectively. The Allowance for Doubtful Accounts was $127,000 and $25,000 at December 31, 2008 and 2007, respectively.

Inventory Valuation. Raw component and finished goods inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or market value. Winland estimates excess, slow moving and obsolete reserves for inventory on a quarterly basis based upon order demand and production requirements for its major customers and annual reviews for other customers Management's estimated reserve for slow moving and obsolete inventories was $569,000 and $460,000 as of December 31, 2008 and 2007, respectively.

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

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

Long-lived assets: Winland reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected undiscounted future cash flows be less than the carrying value, Winland might be required to 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. There were no impairment losses recognized in 2008 or 2007.

Allowance for Rework and Warranty Costs. Winland provides a limited warranty to its OEM customers who require Winland to repair or replace product that is defective, due to Company workmanship issues, at no cost to the customer. In addition, Winland provides a limited warranty for its proprietary 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 specific customer 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 $80,000 and $160,000 as of December, 31, 2008 and 2007, respectively.

Changes in Winland's warranty liability, which is included in other accrued liabilities on the balance sheets, are approximately as follows:

	Years Ended December 31	
	2008	2007
Balance, beginning	$ 160,000	$ 126,000
Accruals for products sold	192,000	636,000
Expenditures incurred	(272,000)	(602,000)
Balance, ending	$ 80,000	$ 160,000

Income taxes: Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes" as clarified by the Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes ("FIN 48"). 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 of SFAS 109, 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. FIN 48 requires that Winland recognize 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.

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

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 Winland having the same or similar remaining maturities and collateral requirements. The carrying values of accounts receivable and accounts payable approximate their fair value due to the short-term nature of these instruments.

Loss per share: Basic loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share is computed by dividing the net 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 7). For years ended December 31, 2008 and 2007, 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 480 and 27,080 weighted average shares for the years ended December 31, 2008 and 2007, respectively as inclusion of these shares would have been anti-dilutive.

Employee stock based compensation plans: At December 31, 2008, Winland had stock-based compensation plans, which are described more fully in Note 7. Winland accounts for these plans under the fair value recognition provisions of SFAS No. 123R, "Share-Based Payment".

Research and development expense: Winland expenses research and development costs as incurred. Research and development expenses of $872,000 and $1,049,000 were charged to operations during the years ended December 31, 2008 and 2007, respectively.

Recently issued accounting pronouncements: In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* ("SFAS 141R"). SFAS 141R requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction at fair value as of the acquisition date. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This standard will change our accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 requires all entities to report noncontrolling interests as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of this statement will have a material impact on its financial position or results of operations.

Effective January 1, 2008, Winland adopted FASB SFAS No. 157, *Fair Value Measurements* ("SFAS 157") for financial instruments. SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. The adoption of SFAS 157 did not have an impact on the Company's financial statements. SFAS 157 became effective for non-financial measurements on January 1, 2009 and the Company does not expect the adoption to have a significant impact on its financial position or results of operations.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159") became effective for the Company in 2008. SFAS No. 159 gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. The Company chose not to apply the fair value provisions of SFAS 159 to any financial assets or liabilities.

Note 2. Segment Reporting

SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* requires an enterprise to report segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding the allocation of resources. The Company evaluates the performance of operating segments and allocates resources based on profit and loss from operations.

Effective January 1, 2008, the Company began reporting results of operations by two unique reportable segments, Electronic Manufacturing Services (EMS) and Proprietary Products (Proprietary).

The Company's EMS segment consists of the design and manufacturing of printed circuit board assemblies and higher level products sold mainly to Original Equipment Manufacturer (OEM) customers. Winland offers complete solutions to OEM customer needs by providing value-added services that complement its contract manufacturing capabilities. This is part of a "concept to product realization" strategy, the elements of which may include product concept studies, product design, printed circuit board design, design for manufacturing, higher level assembly and box build, repair service, and legacy support. These services differentiate Winland from many competitors and are intended to increase customer satisfaction, confidence, and loyalty. Winland views EMS customers as strategic partners and works to provide these partners with high level customer care and technical services.

The Company's Proprietary segment represents an established family of environmental security products that can monitor critical environments including simple and sophisticated microprocessor and mechanically controlled sensors and alarms. These products monitor and detect critical environmental changes, such as changes in temperature or humidity, water leakage and power failures.

The Company's remaining activities are included in "Other". These are unallocated corporate level expenses, which include costs related to the administrative functions performed in a centralized manner and not attributable to particular segments (e.g., executive compensation expense, accounting, human resources and information technology support), are reported in the reconciliation of the segment totals to consolidated totals as "Other" items.

Segment assets or other balance sheet information are not presented to the Company's chief operating decision maker. Accordingly, the Company has not presented information relating to segment assets. The following table presents net sales and operating income (loss) by reportable segment.

WINLAND ELECTRONICS, INC.
SEGMENT REPORTING

($ in thousands)	**EMS**	**Proprietary**	**Other**	**Total**
Three months ended December 31, 2008 (unaudited)				
Net sales	$ 7,102	$ 661	$ -	$ 7,763
Gross Margin	731	274	-	1,005
Operating income (loss)	476	60	(474)	62
Three months ended December 31, 2007 (unaudited)				
Net sales	$ 6,632	$ 861	$ -	$ 7,493
Gross Margin	607	429	-	1,036
Operating income (loss)	411	124	(724)	(189)
Twelve months ended December 31, 2008				
Net sales	$ 25,292	$ 3,373	$ -	$ 28,665
Gross Margin	1,834	1,374	-	3,208
Operating income (loss)	1,099	127	(2,243)	(1,017)
Twelve months ended December 31, 2007				
Net sales	$ 31,584	$ 3,162	$ -	$ 34,746
Gross Margin	2,454	1,608	-	4,062
Operating income (loss)	1,759	300	(2,679)	(620)

Note 3. Inventories

The components of inventories at December 31, 2008 and 2007 were as follows:

	December 31	
	2008	2007
Raw materials	$ 2,923,000	$ 3,467,000
Work in progress	423,000	293,000
Finished goods	991,000	948,000
Total	$ 4,337,000	$ 4,708,000

Note 4. Financing Arrangement and Long-Term Debt

Winland has a $4,000,000 revolving line of credit agreement which expires on June 30, 2009. Advances are due on demand, secured by substantially all Company assets, and are subject to a defined borrowing base equal to 80% of qualified accounts receivable and 50% of qualified inventory, capped at $1,000,000. Interest on advances accrues at the LIBOR rate plus two and three quarter percent (2.75%), which was 3.2% as of December 31, 2008. There were no advances outstanding on the revolving line of credit agreement at either December 31, 2008 or 2007. At December 31, 2008, $3,214,000 was available for borrowing under the terms of this agreement. See also (a) following.

The following is a summary of long-term debt:

	December 31	
	2008	2007
6.44% mortgage note payable, due in monthly installments of $11,373, including interest, to October 1, 2014, secured by property (a),(b)	$ 649,000	$ 741,000
6.50% note payable, principal due in monthly installments of $10,417, with interest to May 31, 2009, secured by property and equipment (a)	39,000	164,000
Capital lease obligations bearing interest ranging from 6.25% to 8.01%, due in monthly installments of $1,138 to $6,426, to December 2012, secured by equipment	783,000	1,019,000
4.91% note payable, principal due in monthly installments of $20,833, with interest to April 1, 2008, secured by property and equipment (a)	-	59,000
	$ 1,471,000	$ 1,983,000
Less current maturities	392,000	512,000
Total long-term debt	$ 1,079,000	$ 1,471,000

(a) These agreements have certain financial and non-financial covenants, which, among others, require the Company to maintain a minimum tangible net worth, a maximum leverage ratio, a maximum debt to tangible net worth, a minimum cash flow coverage ratio, imposes limits on capital expenditures and disallows the declaration or payment of dividends.
(b) As of December 31, 2008, Winland was in violation of the minimum cash flow coverage covenant for this agreement. The issuing financial institution has granted a waiver of this covenant as of December 31, 2008.

Note 4. Financing Arrangement and Long-Term Debt (Continued)

Approximate maturities of long-term debt and future minimum lease payments on capital leases for years subsequent to December 31, 2008, are as follows:

	Long-term Debt	Capital leases
2009	$ 136,000	$ 307,000
2010	104,000	307,000
2011	111,000	231,000
2012	118,000	30,000
2013	126,000	-
Thereafter	93,000	-
Total	$ 688,000	875,000
Less amount representing interest		92,000
Present value of net minimum lease payments		783,000
Less current portion		256,000
Long-term portion		$ 527,000

The cost and accumulated depreciation of assets acquired under capital leases at December 31, 2008 and 2007 were as follows:

	2008	2007
Cost	$ 1,714,000	$ 1,714,000
Accumulated depreciation	924,000	696,000
Net leased property under capital leases	$ 790,000	$ 1,018,000

Note 5. Deferred Revenue

During 1994, Winland and the city of Mankato entered into a tax increment financing agreement for the construction of its operating facility. In connection with this agreement, the city donated land improvements to Winland 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 income tax benefit are as follows:

	December 31	
	2008	2007
Current benefit	$ 207,000	$ 391,000
Deferred benefit (expense)	(118,000)	138,000
	$ 89,000	$ 529,000

Note 6. Income Taxes (Continued)

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

	December 31	
	2008	2007
Statutory U.S. income tax rate	(34) %	(34) %
State benefit (tax), net of federal tax effect	4	(14)
Research and Development Credits	-	(29)
Change in Valuation Allowance	24	-
Other, including permanent differences	6	10
Effective income tax benefit rate	(8) %	(67) %

Deferred tax assets (liabilities) consist of the following components as of December 31, 2008 and 2007:

	December 31	
	2008	2007
Deferred tax assets:		
Inventory	$ 275,000	$ 235,000
Allowance for doubtful accounts	49,000	9,000
Non-qualified stock options	69,000	53,000
Accrued expenses	105,000	154,000
Research Credit Carryover	116,000	3,000
Net operating loss carryforward	57,000	18,000
Other	16,000	8,000
Valuation Allowance	(271,000)	-
	416,000	480,000
Deferred tax liabilities:		
Property and equipment	(367,000)	(325,000)
Prepaid expenses	(49,000)	(37,000)
	(416,000)	(362,000)
Net deferred tax assets	$ -	$ 118,000

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. Winland 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. For the year ended December 31, 2008, Winland recorded a $271,000 tax valuation allowance against 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. As of December 31, 2008 and 2007, the Company calculated its estimated annualized effective tax benefit rate at 8% and 67%, respectively. The Company recognized an income tax benefit of $89,000 (net of the valuation allowance) based on its $1,117,000 pre-tax loss for year ended 2008 compared to an income tax benefit of $529,000 based on its $792,000 pre-tax loss for the year ended December 31, 2007.

The net deferred tax assets have been classified on the accompanying balance sheets as of December 31, 2007 as follows:

	December 31
	2007
Current assets	$ 400,000
Noncurrent liabilities	(282,000)
Net deferred tax assets	$ 118,000

Note 6. Income Taxes (Continued)

Effective January 1, 2007, Winland adopted the FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes* - an Interpretation of SFAS 109. As required by FIN 48, 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 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

At the adoption date of January 1, 2007, the Company had no unrecognized tax benefits that, if recognized, would affect the effective tax rate. In 2007, the Company recognized a $301,000 reduction in income tax expense for credits filed with the Internal Revenue Service and the State of Minnesota for tax years 2003 through 2007, net of $129,000 reserve for FIN 48,. As of December 31, 2008 the Company had approximately $129,000 of unrecognized tax benefits that, if recognized, would affect its effective tax rate.

The Company files income tax returns in the U.S. federal and state jurisdictions. The Company is currently under examination by the Internal Revenue Service (IRS) for its 2004 through 2007 tax years and the State of Minnesota for its 2003 through 2006 tax years. The Company has not recorded any material adjustment in the liability for unrecognized income tax benefits related to these audits. The years 2004 through 2007 remain open for examination by other state agencies.

Given the fact that the Company is currently under audit by the IRS and the State of Minnesota, it is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months. An estimate of the range of such gross changes cannot be made at this time. However, the Company does not expect the changes to have a significant impact on its effective tax rate or expected cash payments for income taxes within the next 12 months.

Note 7. Warrants and Stock-Based Compensation Plans

Warrants: The Company has warrants outstanding to purchase 12,500 shares of common stock at a weighted average exercise price of $3.52 per share. These warrants were granted prior to 2007 and expire at various dates commencing February 1, 2009.

Employee stock purchase plan: The 1997 Employee Stock Purchase Plan (ESPP) has provided Winland employees the opportunity to purchase common stock through payroll deductions. The purchase price is set at the lower of 85% of the fair market value of common stock at the beginning of the participation period or 85% of the fair market value on the purchase date. The participation periods have a 6-month duration beginning in January and July of each year. A total of 300,000 shares of common stock were authorized for issuance under the ESPP of which 109,798 have been issued. Winland issued 19,607 and 10,365 shares for the years ended December 31, 2008 and 2007, respectively, incurring $8,000 and $11,000 of compensation expense under this plan for those years.

Stock option and employee stock purchase plans: As of December 31, 2008, Winland had one equity-based compensation plan, the 2008 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 2005 Equity Incentive Plan and the 1997 Stock Option Plan. The plans are as follows:

2008 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 2008, up to 300,000 shares are authorized for issuance under the plan. Awards issued under the plan as of December 31, 2008 include 125,000 shares of incentive stock options and 22,000 nonqualified stock options of which 147,000 are outstanding and 22,000 of which are vested at December 31, 2008. 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 10 years. Option awards provide for accelerated vesting if substantially all of Winland's assets are transferred through an acquisition, merger or reorganization.

Note 7. Warrants and Stock-Based Compensation Plans (Continued)

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, 2008, there were 274,000 options outstanding under this plan of which 87,800 are vested.

1997 Stock Option Plan – This plan provided for grants in both the form of incentive stock options and nonqualified stock options. The plan was terminated as to future grants in May 2005. At December 31, 2008 there were 47,800 options outstanding under this plan of which 42,400 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	
	2008	2007
Expected life, in years	5-10	5-10
Expected volatility	69.5%	69.9%
Risk-free interest rate	3.3%	4.4%
Dividend yield	0.0%	0.0%
Weighted average of fair value of options granted		

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.

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 options are sold over the exercise prices of the options. In accordance with SFAS 123R, Winland revised its Statements of Cash Flows presentation to report any tax benefit from the exercise of stock options as financing cash flows. For the year ended December 31, 2007, there were stock option exercises and disqualifying stock dispositions which triggered $10,000 in tax benefits, reflected as financing activities in the statement of cash flows as required by SFAS 123R. During 2008, there were no such stock option exercises and disqualifying stock dispositions.

Net cash proceeds from the exercise of stock options were $11,000 and $27,000 for the years ended December 31, 2008 and 2007, respectively. For the year ended December 31, 2007, 21,340 options were exercised in stock swaps, using previously owned shares of Winland's common stock as payment for the shares. For the year ended December 31, 2008, no options were exercised in such stock swaps.

The following table represents stock option activity for the twelve months ended December 31, 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value
Outstanding options at January 1, 2008	371,100	$ 3.10		
Granted	233,500	1.72		
Exercised	(8,800)	1.27		
Forfeited	(127,000)	3.13		
Outstanding options at December 31, 2008	468,800	$ 2.44	5.30 Yrs	$2,000
Exercisable at December 31, 2008	154,000	$ 3.01	4.89 Yrs	$2,000

Note 7. Warrants and Stock-Based Compensation Plans (Continued)

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.

At December 31, 2008, there was $240,000 of unrecognized compensation cost, adjusted for estimated forfeitures, related to share-based payments which is expected to be recognized over a weighted-average period of 2.5 years and will be adjusted for any future changes in estimated forfeitures.

Note 8. Employee Benefit Plans

Pension plan: Winland 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 of 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. Winland contributed approximately $103,000 and $100,000 to the plan for the years ended December 31, 2008 and 2007, respectively. In addition, Winland 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, 2008 and 2007.

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 $175,000 and $209,000 to the plan for the years ended December 31, 2008 and 2007, respectively.

Note 9. Major Customers

Winland has customers which accounted for more than 10 percent of net sales for the years ended December 31, 2008 and 2007, as follows:

	2008	2007
Sales percentage:		
Customer A	33%	19%
Customer B	16%	20%
Customer C	11%	18%
Accounts receivable percentage at December 31:		
Customer A	40%	13%
Customer B	9%	10%
Customer C	12%	39%

Customer B has chosen to allow its contract with Winland to expire as of March 20, 2009. Winland expects sales to be completed to Customer B during the first quarter of 2009.

Note 10. Shareholder Rights Plan

On December 9, 2003, Winland'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 Winland 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 Winland's outstanding common stock. The rights are nonvoting, pay no dividends, expire on December 9, 2013, and may be redeemed by Winland 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 Winland is acquired in a merger or other business combination, or if 50 percent or more of Winland'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 Winland'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.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our principal executive and financial officers evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2008. Based upon that evaluation, they concluded as of December 31, 2008, that our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within time periods specified in Securities and Exchange Commission rules and forms. In addition, our principal executive and financial officers concluded as of December 31, 2008 that our disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control system over financial reporting is designed by, or under the supervision of, our chief executive officer and chief financial officer, and is effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the assets of the company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that transactions are made only in accordance with the authorization of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized transactions that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of Winland's internal control over financial reporting as of December 31, 2008. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on management's assessment and those criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2008.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control.

None.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated by reference to Winland's definitive proxy statement for its 2009 Annual Meeting of Shareholders under the captions "Executive Compensation" and "Corporate Governance – Compensation to Non-Employee Directors."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to Winland's definitive proxy statement for its 2009 Annual Meeting of Shareholders under the captions "Executive Compensation" and "Corporate Governance – Compensation to Non-Employee Directors."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 relating to security ownership of certain holders is incorporated by reference to Winland's definitive proxy statement for its 2009 Annual Meeting of Shareholders under the caption "Principal Shareholders and Management Shareholdings."

The following table provides information concerning Winland's equity compensation plans as of December 31, 2008.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	468,800	$2.44	343,202 (1)
Equity compensation plans not approved by security holders (2)	12,500	$3.52	0
TOTALS	481,300	$2.46	343,202

(1) Includes 190,202 shares available for issuance under Winland's 1997 Employee Stock Purchase Plan.

(2) The plans consist of three warrant agreements to purchase shares of Winland's Common Stock issued in 2006 as partial consideration for consulting services to the following: (i) Board Assets, Inc., a board evaluation and consulting firm – warrant to purchase 5,000 shares of common stock, which warrant vests upon performance of certain services and expires on February 16, 2016 (2,500 shares vested on July 17, 2006, and the remaining shares did not vest because the consulting arrangement has been terminated); and (ii) each of two principals of Genoa Business Advisors, LLC, a business consulting firm – warrant to purchase 10,000 shares, which vest in 5,000-share increments upon performance of certain services and expire on September 6, 2011 (10,000 shares vested on January 19, 2007, and the remaining shares did not vest because the consulting arrangement has been terminated).

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to Winland's definitive proxy statement for its 2009 Annual Meeting of Shareholders under the captions "Corporate Governance" and "Certain Transactions."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information requested in this item is incorporated by reference to Winland's definitive proxy statement for its 2009 Annual Meeting of Shareholders under the caption "Independent Registered Public Accounting Firm."

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following exhibits are included in this report: See "Exhibit Index to Form 10-K" following the signature page of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Winland has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Winland Electronics Inc.

Dated: March 17, 2009

/s/ Thomas J. de Petra
Thomas J. de Petra
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of Winland, in the capacities, and on the dates, indicated.

(Power of Attorney)

Each person whose signature appears below constitutes and appoints Thomas J. de Petra and Glenn A. Kermes as his true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Signature and Title	**Date**
/s/ Thomas J. de Petra Thomas J. de Petra President and Chief Executive Officer (Principal Executive Officer)	March 17, 2009
/s/ Glenn A. Kermes Glenn A. Kermes Chief Financial Officer and Executive Vice President (Principal Financial Officer and Principal Accounting Officer)	March 17, 2009
/s/ Thomas J. Goodmanson Thomas J. Goodmanson Director	March 17, 2009
/s/ Thomas J. Brady Thomas J. Brady Director	March 17, 2009
/s/ Richard T. Speckmann Richard T. Speckmann Director	March 17, 2009
/s/ Lorin E. Krueger Lorin E. Krueger Director	March 17, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

EXHIBIT INDEX TO FORM 10-K

For the Fiscal Year Ended December 31, 2008 Commission File No.: 1-15637

WINLAND ELECTRONICS, INC.

Exhibit Number	Item
3.1	Restated Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 to Form 10-KSB for the fiscal year ended December 31, 1994)
3.2	Restated Bylaws (Incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K dated March 5, 2001)
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock – See Exhibit 4.2
4.1	Specimen of Common Stock certificate (Incorporated by reference to Exhibit 4 to Registration Statement on Form S-4, SEC File No. 33-31246)
4.2	Rights Agreement dated December 9, 2003 between the Company and Wells Fargo Bank Minnesota, N.A., which includes the form of Certificate of Designation as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C (Incorporated by reference to Exhibit 4.1 to the Form 8-A Registration Statement No. 001-15637 filed on December 10, 2003)
4.3	First Amendment to Rights Agreement dated December 1, 2004 by and among the Company, Wells Fargo Bank, N.A. and Registrar and Transfer Company (Incorporated by reference to Exhibit 4.2 to Form 8-A/A-1 Registration Statement No. 001-15637 filed December 3, 2004)
10.1	Winland Electronics, Inc. 1997 Employee Stock Purchase Plan as amended June 17, 2003 (Incorporated by reference to Exhibit 10.1 to Form 10-QSB for the quarter ended June 30, 2003)**
10.2	Winland Electronics, Inc. 1997 Stock Option Plan (Incorporated by reference to Exhibit 10.2 to Form 10-QSB for the quarter ended June 30, 1997)**
10.3	Form of Incentive Stock Option Plan under 1997 Stock Option Plan (Incorporated by reference to Exhibit 10.3 to Form 10-QSB for the quarter ended June 30, 1997)**
10.4	Form of Nonqualified Stock Option Plan under 1997 Stock Option Plan (Incorporated by reference to Exhibit 10.4 to Form 10-QSB for the quarter ended June 30, 1997)**

10.5	Credit and Security Agreement between the Company and M&I Marshall & Ilsley Bank (M&I), dated June 30, 2003 and Note dated June 30, 2003 in the principal amount of $2,500,000 in favor of M&I (Incorporated by reference to Exhibit 10.1 to Form 10-QSB for quarter ended June 30, 2003)
10.6	Term Note in the principal amount of $1,000,000 dated September 30, 2004 in favor of U.S. Bank, N.A. (Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K dated September 30, 2004 and filed on October 6, 2004)
10.7	Term Loan Agreement dated September 30, 2004 between the Company and U.S. Bank, N.A. (Incorporated by reference to Exhibit 99.2 to Current Report on Form 8-K dated September 30, 2004 and filed on October 6, 2004)
10.8	Addendum to Term Loan Agreement and Note dated September 30, 2004 between the Company and U.S. Bank, N.A.(Incorporated by reference to Exhibit 99.3 to Current Report on Form 8-K dated September 30, 2004 and filed on October 6, 2004)
10.9	Mortgage, Security Agreement and Assignment of Rents dated September 30, 2004 bet in favor of U.S. Bank, N.A. (Incorporated by reference to Exhibit 99.4 to Current Report on Form 8-K dated September 30, 2004 and filed on October 6, 2004)
10.10	2005 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated May 10, 2005 and filed on May 13, 2005)
10.11	Form of Incentive Stock Option Agreement under the 2005 Equity Incentive Plan (Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K dated May 10, 2005 and filed on May 13, 2005)
10.12	Form of Nonqualified Stock Option Agreement under the 2005 Equity Incentive Plan (Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K dated May 10, 2005 and filed on May 13, 2005)
10.13	Form of Restricted Stock Agreement under the 2005 Equity Incentive Plan (Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K dated May 10, 2005 and filed on May 13, 2005)
10.14	Amendment No. 1 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated April 15, 2004 and Term Note dated April 15, 2004 (Incorporated by reference to Exhibit 10.1 to Form 10-QSB for quarter ended June 30, 2005)
10.15	Amendment No. 2 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 25, 2004 (Incorporated by reference to Exhibit 10.2 to Form 10-QSB for quarter ended June 30, 2005)
10.16	Amendment No. 3 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated August 3, 2004 (Incorporated by reference to Exhibit 10.3 to Form 10-QSB for quarter ended June 30, 2005)
10.17	Amendment No. 4 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated February 23, 2005 (Incorporated by reference to Exhibit 10.4 to Form 10-QSB for quarter ended June 30, 2005)

10.18	Amendment No. 5 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated April 4, 2005 (Incorporated by reference to Exhibit 10.5 to Form 10-QSB for quarter ended June 30, 2005)
10.19	Amendment No.6 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 23, 2005 (Incorporated by reference to Exhibit 10.6 to Form 10-QSB for quarter ended June 30, 2005)
10.20	Amendment No.7 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 23, 2005 (Incorporated by reference to Exhibit 10.2 to Form 10-QSB for quarter ended June 30, 2006)
10.21	Amendment No.8 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 23, 2005 (Incorporated by reference to Exhibit 10.3 to Form 10-QSB for quarter ended June 30, 2006)
10.22	Master Lease Agreement between the Company and M&I Marshall & Ilsley Bank dated June 28, 2006 (Incorporated by reference to Exhibit 10.1 to Form 10-QSB for quarter ended June 30, 2006)
10.23	Compensation Arrangements for Directors as of January 1, 2006 (Incorporated by reference to Exhibit 10.28 to Form 10-KSB for year ended December 31, 2005)**
10.25	Employment Agreement dated January 23, 2007 between the Company and Lorin E. Krueger (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated January 23, 2007) **
10.26	Employment Agreement dated January 23, 2007 between the Company and Glenn A. Kermes (Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K dated January 23, 2007) **
10.27	Employment Agreement dated February 5, 2007 between the Company and Terry E. Treanor (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 5, 2007) **
10.28	Employment Agreement dated February 14, 2007 between the Company and Dale A. Nordquist (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 14, 2007) **
10.29	Employment Agreement dated February 3, 2007 between the Company and Gregory W. Burneske (Incorporated by reference to Exhibit 10.29 to Form 10-KSB for year ended December 31, 2006) **
10.30	2007 Incentive Bonus Plan**
10.31	Amendment No.9 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 29, 2007 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 29, 2007)
10.32	Amendment No.10 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated September 30, 2007 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated October 22, 2007)
10.33	Separation Agreement between the Company and Lorin E. Krueger dated October 30, 2007 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated October 30, 2007)**
10.34	Amendment to Employment Agreement between the Company and Glenn A. Kermes dated December 31, 2007 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated December 31, 2007)**
10.35*	Separation Agreement between the Company and Terry E. Treanor dated February 13, 2008**

10.36	Employment Agreement dated May 6, 2008 between the Company and Thomas J. de Petra (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated May 8, 2008) **
10.37	Winland Electronics, Inc. 1997 Employee Stock Purchase Plan as amended May 6, 2006 (Incorporated by reference to Form S-8 dated September 5, 2008)**
10.38	2008 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated May 6, 2008 and filed on May 12, 2008)**
10.39	Amendment No.11 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated June 30, 2008 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 30, 2008 and filed on July 25, 2008)
10.40	Amendment No.12 to Credit Agreement between the Company and M&I Marshall & Ilsley Bank dated October 27, 2008 (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the period ended September 30, 2009)
23.1*	Consent of McGladrey & Pullen, LLP
24.1*	Power of Attorney for Thomas J. de Petra, Glenn A. Kermes, Lorin E. Krueger, Richard T. Speckmann, Thomas J. Goodmanson, Thomas J. Brady (included on signature page of this Form 10-K)
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
32.1*	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.
** Management agreement or compensatory plan or arrangement.

EXHIBIT 31.1

SARBANES-OXLEY SECTION 302 CERTIFICATION

I, Thomas J. de Petra, certify that:

1. I have reviewed this Form 10-K of Winland Electronics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 17, 2009

/s/ Thomas J. de Petra
Thomas J. de Petra
President and Chief Executive Officer

EXHIBIT 31.2

SARBANES-OXLEY SECTION 302 CERTIFICATION

I, Glenn A. Kermes, certify that:

1. I have reviewed this Form 10-K of Winland Electronics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 17, 2009

/s/ Glenn A. Kermes
Glenn A. Kermes
Chief Financial Officer and Executive Vice President

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Winland Electronics, Inc. (the "Company") on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Thomas J. de Petra, Interim Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 17, 2009

/s/ Thomas J. de Petra
Thomas J. de Petra
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Winland Electronics, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission (the “Report”), I, Glenn A. Kermes, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 17, 2009

/s/ Glenn A. Kermes
Glenn A. Kermes
Chief Financial Officer and Executive Vice President

WINLAND ELECTRONICS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
to be held
May 5, 2009

TO THE SHAREHOLDERS OF WINLAND ELECTRONICS, INC.:

The 2009 Annual Meeting of Shareholders of Winland Electronics, Inc. will be held at the Marriott Minneapolis City Center, 30 South 7th Street, Minneapolis, Minnesota, at 3:30 p.m. on Tuesday, May 5, 2009, for the following purposes:

1. To set the number of members of the Board of Directors at five (5).

2. To elect directors.

3. To approve the increase from 300,000 shares to 500,000 shares authorized for Winland's 2008 Equity Incentive Plan.

4. To take action on any other business that may properly come before the meeting or any adjournment thereof.

Accompanying this Notice of Annual Meeting is a combined Proxy Statement and Annual Report and form of Proxy.

Only shareholders of record as shown on the books of Winland Electronics at the close of business on March 9, 2009 will be entitled to vote at the 2009 Annual Meeting or any adjournment thereof. Each shareholder is entitled to one vote per share on all matters to be voted on at the meeting.

You are cordially invited to attend the 2009 Annual Meeting. Whether or not you plan to attend the 2009 Annual Meeting, please vote your shares by via the internet, telephone or sign, date and mail the enclosed form of Proxy in the return envelope provided. The Proxy is revocable and will not affect your right to vote in person in the event you attend the meeting. The prompt return of proxies will help us avoid the unnecessary expense of further requests for proxies.

BY ORDER OF THE BOARD OF DIRECTORS,

Thomas J. Goodmanson
Chairman of the Board

Dated: March 26, 2009
Mankato, Minnesota

WINLAND ELECTRONICS, INC.

PROXY STATEMENT FOR
ANNUAL MEETING OF SHAREHOLDERS
to be held
May 5, 2009

The accompanying Proxy is solicited by the Board of Directors of Winland Electronics, Inc. for use at our 2009 Annual Meeting of Shareholders to be held on Tuesday, May 5, 2009, at the location/time and for the purposes set forth in the Notice of Annual Meeting, and at any adjournment thereof.

The cost of soliciting proxies, including the preparation, assembly and mailing of the proxies and soliciting material, as well as the cost of forwarding such material to the beneficial owners of stock, will be borne by us. Our directors, officers and employees may, without compensation other than their regular remuneration, solicit proxies personally or by telephone.

You may vote your shares as follows:

- Vote by Internet: www.proxyvote.com
- Vote by Telephone: 1-800-690-6903
- Vote by Mail: Mark, sign and date your proxy card and return it in the postage-paid envelope provided.

Any shareholder giving a Proxy may revoke it any time prior to its use at the 2009 Annual Meeting by giving written notice of such revocation to the Secretary or any other officer of Winland Electronics or by filing a later dated written Proxy with one of our officers. Personal attendance at the 2009 Annual Meeting is not, by itself, sufficient to revoke a Proxy unless written notice of the revocation or a later dated Proxy is delivered to an officer before the revoked or superseded Proxy is used at the 2009 Annual Meeting. Proxies will be voted as directed therein. Proxies which are signed by shareholders but which lack specific instruction with respect to any proposal will be voted in favor of the number and slate of directors proposed by the Board of Directors and listed herein.

The presence at the Annual Meeting in person or by proxy of the holders of a majority of the outstanding shares of our Common Stock entitled to vote shall constitute a quorum for the transaction of business. If a broker returns a "non-vote" proxy, indicating a lack of voting instructions by the beneficial holder of the shares and a lack of discretionary authority on the part of the broker to vote on a particular matter, then the shares covered by such non-vote shall be deemed present at the meeting for purposes of determining a quorum but shall not be deemed to be represented at the meeting for purposes of calculating the vote required for approval of such matter. If a shareholder abstains from voting as to any matter, then the shares held by such shareholder shall be deemed present at the meeting for purposes of determining a quorum and for purposes of calculating the vote with respect to such matter, but shall not be deemed to have been voted in favor of such matter. An abstention as to any proposal will therefore have the same effect as a vote against the proposal.

The mailing address of the principal executive office of Winland Electronics is 1950 Excel Drive, Mankato, Minnesota 56001. We expect that this Proxy Statement, the related Proxy and Notice of Meeting will first be mailed to shareholders on or about March 26, 2009.

OUTSTANDING SHARES AND VOTING RIGHTS

The Board of Directors has fixed March 9, 2009 as the record date for determining shareholders entitled to vote at the 2009 Annual Meeting. Persons who were not shareholders on such date will not be allowed to vote at the 2009 Annual Meeting. At the close of business on March 9, 2008, there were 3,669,148 shares of our Common Stock, par value $.01 per share, issued and outstanding. The Common Stock is our only outstanding class of capital stock. Each share of Common Stock is entitled to one vote on each matter to be voted upon at the 2009 Annual Meeting. Holders of Common Stock are not entitled to cumulative voting rights.

PRINCIPAL SHAREHOLDERS AND MANAGEMENT SHAREHOLDINGS

The following table provides information as of March 9, 2008 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 in the Summary Compensation Table and (iv) all current executive officers and directors as a group. Except as otherwise indicated, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock owned by them. As of March 9, 2008, there were 3,669,148 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)
Lorin E. Krueger	215,416 (2)	5.9%
Thomas J. de Petra	44,727 (3)	1.2%
Richard T. Speckmann	36,100 (4)	1.0%
Warren Mitchell	0	0.0%
David Kuklinski	0	0.0%
Thomas J. Goodmanson	18,000 (5)	*
Glenn A. Kermes	22,000 (6)	*
Thomas J. Brady	23,000 (7)	*
Greg Burneske	28,805(8)	*
FMR LLC	337,600 (9)	9.2%
All Executive Officers and Directors as a Group (9 Individuals)	388,048(10)	10.2%

* Less than 1% of the outstanding shares of Common Stock.

(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) Includes 880 shares held by Mr. Krueger's spouse and 5,500 shares which may be purchased by Mr. Krueger upon exercise of currently exercisable options. Mr. Krueger's address is 517 River Hills Road, Mankato MN 56001.

(3) Includes 31,500 shares which may be purchased by Mr. de Petra upon exercise of currently exercisable options.

(4) Includes 27,000 shares which may be purchased by Mr. Speckmann upon exercise of currently exercisable options.

(5) Includes 11,000 shares which may be purchased by Mr. Goodmanson upon exercise of currently exercisable options.

(6) Includes 18,000 shares which may be purchased by Mr. Kermes upon exercise of currently exercisable options.

(7) Includes 12,000 shares held by Mr. Brady's spouse and 11,000 shares which may be purchased by Mr. Brady upon exercise of currently exercisable options.

(8) Includes 25,200 shares which may be purchased by Mr. Burneske upon exercise of currently exercisable options.

(9) According to a Schedule 13G filed with the Securities and Exchange Commission on February 17, 2009 by FMR LLC ("FMR") and Edward C. Johnson III, Chairman and principal shareholder of FMR, the shares are beneficially owned by Fidelity Management & Research Company ("Fidelity Research") as an investment adviser to various investment companies (the "Funds"), including Fidelity Low Priced Stock Fund ("Fidelity Fund"), with Mr. Johnson, FMR and the Funds each having the sole power to dispose of such shares and the Funds' Boards of Trustees having the sole power to vote or direct the vote of such shares. Fidelity Research and Fidelity Fund are wholly-owned subsidiaries of FMR. The address for FMR is 82 Devonshire Street, Boston, Massachusetts 02109.

(10) Includes 129,200 shares which may be purchased by executive officers and directors upon exercise of currently exercisable options.

CORPORATE GOVERNANCE

Our business affairs are conducted under the direction of the Board of Directors in accordance with the Minnesota Business Corporation Act and our Articles of Incorporation and Bylaws. Members of the Board of Directors are informed of our business through discussions with management, by reviewing materials provided to them and by participating in meetings of the Board of Directors and its committees. The corporate governance practices that we follow are summarized below.

Independence

The Board has determined that a majority of its members are "independent" as defined by the listing standards of the American Stock Exchange. Our independent directors are Richard T. Speckmann, Thomas J. Goodmanson and Thomas J. Brady. In the last three years, there have been no transactions, relationships or arrangements, other than in connection with service on our Board, between the independent directors and Winland Electronics.

Code of Ethics and Business Conduct

The Board has approved a Code of Ethics and Business Conduct that applies to all of our employees, directors and officers, including our principal executive officer, principal financial officer, principal accounting officer and controller. The Code of Ethics and Business Conduct addresses such topics as protection and proper use of our assets, compliance with applicable laws and regulations, accuracy and preservation of records, accounting and financial reporting, conflicts of interest and insider trading. The Code of Ethics and Business Conduct is available free of charge to any shareholder who sends a request for a copy to Winland Electronics, Inc., Attn. Chief Financial Officer, 1950 Excel Drive, Mankato, Minnesota 56001, and it is also available on our website at www.winland.com. We intend to disclose on our website any amendment to, or waiver from, a provision of our Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer and controller relating to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K. Late in 2003, we contracted with an independent professional organization to provide anonymous hotline services that permit our employees to communicate any concerns about behavior or practices of Winland Electronics, its employees, officers or directors. This service began January 1, 2004 which is still currently used and was established to assist the Board of Directors in effective internal control.

Meeting Attendance

Board and Committee Meetings. Directors are required to attend a minimum of 75% of Board and committee meetings. During fiscal 2008, the Board held four (4) meetings. Each director attended 100% of the meetings of the Board and the committees on which such director served.

Annual Meeting of Shareholders. Directors are encouraged to attend our annual meetings of shareholders; however, there is no formal policy regarding attendance at annual meetings. All directors were in attendance for our 2008 annual meeting of shareholders.

Executive Sessions of the Board

An executive session of non-management directors is held at least once a year. In 2008, the Board held one (1) executive sessions this year and the Audit committee held four (4) executive sessions.

Committees of the Board

Our Board of Directors has three standing committees, the Audit Committee, the Compensation Committee and the Nominating/Governance Committee. Each of the current members of these committees is a non-employee independent director.

Audit Committee. The Audit Committee is comprised of Thomas J. Brady (Chairman), Thomas J. Goodmanson and Richard T. Speckmann. Messrs. Brady and Goodmanson are "audit committee financial experts" as defined by Item 401(e) of Regulation S-K under the Securities Act of 1933. Mr. Brady has a degree in accounting and is an inactive CPA in the state of Minnesota. He currently serves as Chief Financial officer of Digineer, Inc., an end-to-end e-business solutions provider. Mr. Goodmanson has a degree in accounting and is an inactive CPA in the State of Minnesota. He currently serves as Chief Financial Officer of Calibrio, Inc. a leading provider of workforce optimization and unified desktop software for IP-based contact centers. We acknowledge that the designation of Messrs. Brady and Goodmanson as audit committee financial experts does not impose on Messrs. Brady and Goodmanson any duties, obligations or liability that are greater than the duties, obligations and liability imposed on Messrs. Brady and Goodmanson as a member of the audit committee and the Board of Directors in the absence of such designation or identification. The Audit Committee reviews the selection and work of our independent registered public accounting firm and the adequacy of internal controls for compliance with corporate policies and directives. The Audit Committee's Report is included on page 15. During 2008, the Audit Committee met four (4) times. Our independent registered public accounting firm was present at all of these meetings.

Compensation Committee. The Compensation Committee is comprised of Richard T. Speckmann (Chairman), Thomas J. Goodmanson and Thomas J. Brady. Mr. Brady was appointed to the committee on May 6, 2008. This committee determines the compensation of the Chief Executive Officer; and, taking into consideration any recommendations by the Chief Executive Officer, it also determines the compensation for our other executive officers. The committee makes recommendations to the Board of Directors with respect to incentive compensation plans. This committee is vested with the same authority as the Board of Directors with respect to the administration of our equity plans. During 2008, the Compensation Committee met once.

Nominating/Governance Committee. The Nominating/Governance Committee is comprised of Richard T. Speckmann (Chairman), Thomas J. Brady and Thomas J. Goodmanson. On May 6, 2008, Mr. Brady was appointed to the committee and Mr. Speckmann was appointed Chairman of the committee. This committee recommends to the Board of Directors nominees for vacant positions on the Board, sets goals for the Board and monitors the achievement of such goals. This committee will consider a candidate for director proposed by a shareholder. Candidates must have broad training and experience in their chosen fields and must have achieved distinction in their activities. The committee considers the particular expertise of each nominee and strives to achieve an appropriate breadth of skills among the Board members. A shareholder who wants to propose a candidate must comply with the provisions of our Bylaws regarding nominations for the election of directors. The policies of the committee are described more fully in the Nominating/Governance Committee's Report on page 6. During 2008, the Nominating/Governance Committee met once.

Communications with the Board

Shareholders may communicate directly with the Board of Directors. All communications, other than shareholder proposals and director nominations which must comply with certain other requirements as discussed under "Shareholder Proposals and Nominations of Director Candidates" on page 15, should be directed to our Chief Financial Officer at the address below and should prominently indicate on the outside of the envelope that it is intended for the Board of Directors or for non-management directors. If no director is specified, the communication will be forwarded to the entire Board. The communication will not be opened before being forwarded to the intended recipient, but it will go through normal security procedures. Shareholder communications to the Board should be sent to:

Glenn A. Kermes, Chief Financial Officer
Winland Electronics, Inc.
1950 Excel Drive
Mankato, MN 56001

Compensation to Non-Employee Directors

Cash Compensation. In addition to being reimbursed for out-of-pocket expenses incurred in connection with attendance at Board or Committee meetings, the non-employee directors receive the following fees:

Retainer:

- $1,200 per month for service on the Board, with the Chairman receiving an additional $22,000 per year.

Meeting Fees:

- $1,200 for Board meeting attendance.
- $1,200 for Audit Committee meeting attendance, with the chairman of the Audit Committee receiving an additional $1,200 per meeting.
- $800 for Compensation Committee or Nominating/Governance Committee meeting attendance, with the chairman of each of the Compensation Committee and the Nominating/Governance Committee receiving an additional $750 per meeting.

Equity Compensation. Our 2008 Equity Incentive Plan provides for automatic option grants to each non-employee director. Each non-employee director who is elected for the first time as a director is granted a nonqualified option to purchase 5,500 shares of Common Stock. Each non-employee director who is re-elected as a director or whose term of office continues after a meeting of shareholders at which directors are elected shall, as of the date of such re-election or shareholder meeting, automatically be granted a five-year nonqualified option to purchase 5,500 shares of Common Stock. No director shall receive more than one option pursuant to the formula plan in any one fiscal year. All options granted pursuant to these provisions are granted at a per share exercise price equal to 100% of the fair market value of the Common Stock on the date of grant, and they are immediately exercisable. On May 6, 2008, each of our non-employee directors received an option to purchase 5,500 shares at $1.74 per share. On January 2, 2008, Mr. Brady was elected to the Board and received an option to purchase 5,500 shares at $2.23 per share.

Name	Fees Earned or Paid in Cash ($)(1)	Option Awards ($)(2)	Total ($)	Options to purchase shares of stock (#)(3)
Thomas J. Goodmanson	$36,433	$7,959	$44,395	11,000
Thomas J. Brady	22,800	7,959	30,759	11,000
Richard T. Speckmann	21,950	7,959	29,909	27,000
Lorin E. Krueger	18,000	7,959	25,959	5,500

(1) The amounts consist of the cash fees paid to the non-employee directors as described in “Cash Compensation” above.

(2) The amounts reflect the amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008 in accordance with FAS 123R for stock option awards automatically granted to non-employee directors in fiscal year 2008 pursuant to our 2008 Equity Incentive Plan. Assumptions used in the calculation of these amounts are included in footnote 7 to our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission

(3) The amounts reflect the total number of options held by each director to purchase shares of the Company’s common stock.

NOMINATING/GOVERNANCE COMMITTEE REPORT

The Nominating/Governance Committee is comprised of independent directors. In accordance with its written charter, the Nominating/Governance Committee assists the Board of Directors with fulfilling its responsibility regarding any matters relating to corporate governance including selection of candidates for our Board of Directors. Its duties shall include oversight of the principles of corporate governance by which Winland Electronics and the Board shall be governed; the codes of ethical conduct and legal compliance by which Winland Electronics and its directors, executive officers, employees and agents will be governed; policies for evaluation of the Board and the chairperson; policies for election and reelection of Board members; and policies for succession planning for the Chief Executive Officer, Board chairperson and other Board members. In addition, the Nominating/Governance Committee is responsible for annually reviewing the composition of the Board, focusing on the governance and business needs and requirements of Winland Electronics, nominating and screening of Board member candidates, evaluating the performance of Board members and recommending the reelection of Board members who are performing effectively and who continue to provide a competency needed on the Board. When a director's principal occupation or business association changes substantially, such director shall tender a letter of resignation to the Board through the Nominating/Governance Committee, which resignation will be considered and acted upon in a manner that is best for the Board and Winland Electronics.

The Nominating/Governance Committee will consider candidates for nomination as a director recommended by shareholders. In evaluating director nominees, the Nominating/Governance Committee requires certain minimum qualifications, including high moral character and mature judgment and the ability to work collegially with others. In addition, factors such as the following shall be considered:

- appropriate size and diversity of the Board;
- needs of the Board with respect to particular talent and experience;
- knowledge, skills and experience of nominee;
- familiarity with our business and industry;
- appreciation of the relationship of our business to the changing needs of society; and
- desire to balance the benefit of continuity with the periodic injection of the fresh perspective provided by a new member.

Shareholders who wish to recommend one or more candidates for director to the Nominating/Governance Committee must provide written recommendation to the Chief Financial Officer. Notice of a recommendation must include the shareholder's name, address and the number of shares owned, along with information with respect to the person being recommended, i.e. name, age, business address, residence address, current principal occupation, five-year employment history with employer names and a description of the employer's business, the number of shares beneficially owned by the prospective nominee, whether such person can read and understand basic financial statements and other board memberships, if any. The recommendation must be accompanied by a written consent of the prospective nominee to stand for election if nominated by the Board of Directors and to serve if elected by the shareholders. Winland Electronics may require any nominee to furnish additional information that may be needed to determine the eligibility of the nominee. In addition, the Bylaws permit shareholders to nominate directors for consideration at a meeting of shareholders at which one or more directors are to be elected. For a description of the process for nominating directors in accordance with the Bylaws, see "Shareholder Proposals and Nominations of Director Candidates" on page 15.

A copy of the current Nominating/Governance Committee Charter is available on our website at www.winland.com.

Members of the Nominating/Governance Committee
Richard T. Speckmann, Chairman
Thomas J. Goodmanson
Thomas J. Brady

ELECTION OF DIRECTORS

(Proposals #1 and #2)

Our Bylaws provide that the number of directors shall be the number set by the shareholders, which shall be not less than one. The Nominating/Governance Committee recommended to the Board of Directors that the number of directors be set at five and that the persons currently serving on the Board be nominated for re-election. The Board of Directors unanimously recommends that the number of directors be set at five and that the five persons nominated be re-elected. Unless otherwise instructed, the Proxies will be so voted.

Under applicable Minnesota law, approval of the proposal to set the number of directors at five requires the affirmative vote of the holders of the greater of a majority of the voting power of the shares represented in person or by proxy at the Annual Meeting with authority to vote on such matter, and the election of directors requires the affirmative vote of the holders of a plurality of the voting power of the shares represented in person or by proxy at the Annual Meeting with authority to vote on such matter.

In the absence of other instruction, the Proxies will be voted for setting the number of directors at five and for each of the individuals listed below. If elected, such individuals shall serve until the next annual meeting of shareholders and until their successors shall be duly elected and shall qualify. All of the nominees are members of the present Board of Directors. If, prior to the 2009 Annual Meeting of Shareholders, it should become known that any one of the following individuals will be unable to serve as a director after the 2009 Annual Meeting by reason of death, incapacity or other unexpected occurrence, the Proxies will be voted for such substitute nominee(s) as is selected by the Nominating/Governance Committee. Alternatively, the Proxies may, at the Board's discretion, be voted for such fewer number of nominees as results from such death, incapacity or other unexpected occurrences. The Board of Directors has no reason to believe that any of the following nominees will be unable to serve.

Name and Age of Director/Nominee	Age	Current Position With Winland Electronics, Inc.	Director Since
Thomas J. de Petra	62	President, Chief Executive Officer and Director	1994
Lorin E Krueger	53	Director	1983
Richard T. Speckmann	58	Director	2002
Thomas J. Goodmanson	39	Director	2007
Thomas J. Brady	44	Director	2008

Thomas de Petra has been President and Chief Executive Officer since April 2008. Mr. de Petra served as Chairman of Winland's Board of Directors from October 2006 until April 2008, and a Director of the company since 1994. He is the founder and president of Vantage Advisory Services LLC, providing management consulting and business advisory services. While serving as a self-employed management consultant during the past 12 years, Mr. de Petra has served in various interim executive officer roles. He also served as Chief Executive Officer of Nortech Forest Technologies, Inc., a publicly traded company, from February 1996 to June 1997.

Lorin E. Krueger serves as a Director. He is President and Chief Executive Officer of Rt 66 Holdings Inc., a private venture company. From June 1, 2001 to January 2, 2008, Mr. Krueger served as President and Chief Executive Officer of the Company and as President of the Company from January 1999 until June of 2001 when he assumed the additional role of CEO. Mr. Krueger has served as a Director of the Company since 1983. Mr. Krueger served as the Company's Chief Operating Officer, and other executive officer positions in the company, from 1983 until January of 1999. Mr. Krueger was one of the founding partners of the company.

Richard T. Speckmann serves as a Director and Chairman of the Compensation Committee and Nominating/Governance Committee. He is the Chief Executive Officer and President of EmPerform, Inc., a company that evaluates employee performance and productivity, since March 2004. He served as Chief Executive Officer of Outside the Box, Inc. and as President of Amcon Construction Company, LLC April 2001 to November 2002. From January 1997 to March 2001, Mr. Speckmann, a partner of Art Holdings Corporation, served as its President.

Thomas J. Goodmanson serves as a Director and Chairman of the Board. He is the Chief Financial Officer, of Calabrio, Inc., a leading provider of workforce optimization and unified desktop software for IP-based contact centers. From March 2006 to January 2008, Mr. Goodmanson served as the Chief Financial and Administrative Officer of Gelco Information Network, Inc., a leading provider of global software-as-a-service and other on-demand business services. From September 1999 to March 2006, Mr. Goodmanson was Chief Financial Officer of Magenic Technologies. From August 1992 to September 1999, he was a senior manager at KPMG, LLP and is a CPA, inactive, in the state of Minnesota.

Thomas J. Brady serves as a Director and Chairman of the Audit Committee. He is the Chief Financial Officer of Digineer, Inc., a growing IT consulting firm, which he joined in October 2006. At Digineer, he is responsible for all aspects of internal and external financial reporting, as well as information technology, legal, operations and general administration. Previously, Mr. Brady spent 19 years with KPMG, LLP, most recently as Audit Partner, where he was responsible for corporate audits in a wide range of companies and industries with revenues ranging from under $10 million to over $1 billion.

INCREASE IN SHARES RESERVED UNDER THE 2008 EQUITY INCENTIVE PLAN

(Proposal #3)

General

On March 5, 2009, the Board of Directors amended, subject to shareholder approval, our 2008 Equity Incentive Plan (the "Equity Incentive Plan") to increase the reserved shares of Common Stock under the Equity Incentive Plan from 300,000 to 500,000. The Equity Incentive Plan was originally adopted by the Board on March 17, 2008 and approved by the shareholders in May 2008.

The Board believes that granting equity incentives to employees, officers, consultants, advisors and directors is an effective and crucial means to promote the future growth and development of Winland. Such Awards, among other things, increase these individuals' proprietary interest in Winland's success and enables Winland to attract and retain qualified personnel. There are currently 159,000 shares of Common Stock reserved under the Equity Incentive Plan for Awards that have previously been granted under the Equity Incentive Plan. Winland does not have the ability to grant future Awards under the 2005 Equity Incentive Plan or the 1997 Stock Option Plan, nor does it have the ability to reissue Common Stock which was previously reserved for Awards that have expired or terminated. We believe that in order to attract and retain qualified personnel, we must have the capacity to offer Awards under the Equity Incentive Plan.

Because of the current state of the economy and the current trading price of our Common Stock, all of the Awards granted under the Equity Incentive Plan, as well as the 2005 Equity Incentive Plan are under water. Winland deems it important to have the ability to grant Awards in order to attract and retain qualified personnel, including those qualified personnel who have been granted Awards in the past under either the Equity Incentive Plan or the 2005 Equity Incentive Plan.

The Board therefore recommends that all shareholders vote in favor of the amendment to the Equity Incentive Plan to increase the shares of Common Stock reserved under the Equity Incentive Plan from 300,000 to 500,000.

A general description of the basic features of the Equity Incentive Plan is presented below, but such description is qualified in its entirety by reference to the full text of the Equity Incentive Plan, a copy of which may be obtained without charge upon written request to Brian Lawrence, Winland's Controller.

Description of the Equity Incentive Equity Incentive Plan

General. Under the Equity Incentive Plan, the Compensation Committee may award incentive or nonqualified stock options, restricted stock, stock appreciation rights, performance shares and performance units to those officers and employees of Winland (including any subsidiaries and affiliates), or to directors of or consultants or advisors to Winland, whose performance, in the judgment of the Board or Committee, can have a significant effect on the success of Winland.

Shares Available. The Equity Incentive Plan currently provides for the issuance of up to 300,000 shares of Common Stock, subject to adjustment of such number in the event of certain increases or decreases in the number of outstanding shares of Common Stock effected as a result of stock splits, stock dividends, combinations of shares or similar transactions in which Winland receives no consideration.

The total number of shares and the exercise price per share of Common Stock that may be issued pursuant to outstanding Awards are subject to adjustment by the Board upon the occurrence of stock dividends, stock splits or other recapitalizations, or because of mergers, consolidations, reorganizations or similar transactions in which we receive no consideration. The Board may also provide for the protection of Participants in the event of a merger, liquidation, reorganization, divestiture (including a spin-off) or similar transaction.

Administration and Types of Awards. As permitted in the Equity Incentive Plan, the Board has designated the Compensation Committee (hereinafter referred to as the "Administrator") to administer the Equity Incentive Plan. The Administrator has broad powers to administer and interpret the Equity Incentive Plan, including the authority to (i) establish rules for the administration of the Equity Incentive Plan, (ii) select the participants in the Equity Incentive Plan, (iii) determine the types of awards to be granted and the number of shares covered by such awards, and (iv) set the terms and conditions of such awards. All determinations and interpretations of the Administrator are binding on all interested parties.

Options. Options granted under the Equity Incentive Plan may be either "incentive" stock options within the meaning of Section 422 of the Internal Revenue Code ("IRC") or "nonqualified" stock options that do not qualify for special tax treatment under the IRC. No incentive stock option may be granted with a per share exercise price less than the fair market value of a share of the Company's Common Stock on the date the option is granted. The closing sale price of a share of our Common Stock was $0.45 on March 9, 2009.

The period during which an option may be exercised and whether the option will be exercisable immediately, in stages, or otherwise is set by the Administrator. An incentive stock option may not be exercisable more than ten (10) years from the date of grant. Participants generally must pay for shares upon exercise of options with cash, certified check or Common Stock of Winland valued at the stock's then "fair market value" as defined in the Equity Incentive Plan. Each incentive option granted under the Equity Incentive Plan is nontransferable during the lifetime of the Participant. A nonqualified stock option may, if permitted by the Administrator, be transferred to certain family members, family limited partnerships and family trusts.

The Administrator may, in its discretion, modify or impose additional restrictions on the term or exercisability of an option. The Administrator may also determine the effect a Participant's termination of employment with Winland or a subsidiary may have on the exercisability of such option. The grants of stock options under the Equity Incentive Plan are subject to the Administrator's discretion.

Restricted Stock Award, Performance Share Awards and Performance Units. The Administrator is also authorized to grant awards of restricted stock, performance shares and performance units. Each restricted stock award granted under the Equity Incentive Plan shall be for a number of shares as determined by the Administrator, and the Administrator, in its discretion, may also establish continued employment, vesting or other conditions that must be satisfied for the restrictions on the transferability of the shares and the risks of forfeiture to lapse. Performance share awards generally provide the recipient with the opportunity to receive shares of Winland's Common Stock and performance units generally provide recipients with the opportunity to receive cash awards, but only if Winland's financial goals or other business objectives are achieved over specified performance periods.

Stock Appreciation Rights. A stock appreciation right may be granted independent of or in tandem with a previously or contemporaneously granted stock option, as determined by the Administrator. Generally, upon the exercise of a stock appreciation right, the recipient will receive cash, shares of Common Stock or some combination of cash and shares having a value equal to the excess of (i) the fair market value of a specified number of shares of Winland's Common Stock, over (ii) a specified exercise price. If the stock appreciation right is granted in tandem with a stock option, the exercise of the stock appreciation right will generally cancel a corresponding portion of the option, and, conversely, the exercise of the stock option will cancel a corresponding portion of the stock appreciation right. The Administrator will determine the term of the stock appreciation right and how it will become exercisable. A stock appreciation right may not be transferred by an optionee except by will or the laws of descent and distribution.

Amendment. The Board may, from time to time, suspend or discontinue the Equity Incentive Plan or revise or amend it in any respect; provided, (i) no such revision or amendment may impair the terms and conditions of any outstanding option or stock award to the material detriment of the participant without the consent of the participant except as authorized in the event of merger, consolidation or liquidation of Winland, (ii) the Equity Incentive Plan may not be amended in any manner that will (a) materially increase the number of shares subject to the Equity Incentive Plan except as provided in the case of stock splits, consolidations, stock dividends or similar events, (b) change the designation of the class of employees eligible to receive awards; (c) decrease the price at which options will be granted; or (d) materially increase the benefits accruing to participants under the Equity Incentive Plan, without the approval of the shareholders, to the extent such approval is required by applicable law or regulation.

Federal Income Tax Matters

Options. Under present law, an optionee will not realize any taxable income on the date a nonqualified option is granted pursuant to the Equity Incentive Plan. Upon exercise of the option, however, the optionee must recognize, in the year of exercise, ordinary income equal to the difference between the option price and the fair market value of Winland's Common Stock on the date of exercise. Upon the sale of the shares, any resulting gain or loss will be treated as capital gain or loss. Winland will receive an income tax deduction in its fiscal year in which nonqualified options are exercised equal to the amount of ordinary income recognized by those optionees exercising options, and must withhold income and other employment related taxes on such ordinary income.

Incentive stock options granted under the Equity Incentive Plan are intended to qualify for favorable tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended. Under Section 422, an optionee recognizes no taxable income when the option is granted. Further, the optionee generally will not recognize any taxable income when the option is exercised if he or she has at all times from the date of the option's grant until three months before the date of exercise been an employee of Winland. Winland ordinarily is not entitled to any income tax deduction upon the grant or exercise of an incentive stock option. Certain other favorable tax consequences may be available to the optionee if he or she does not dispose of the shares acquired upon the exercise of an incentive stock option for a period of two years from the granting of the option and one year from the receipt of the shares.

Restricted Stock Awards. Generally, no income is taxable to the recipient of a restricted stock award in the year that the award is granted. Instead, the recipient will recognize compensation taxable as ordinary income equal to the fair market value of the shares in the year in which the transfer restrictions lapse. Alternatively, if a recipient makes a "Section 83(b)" election, the recipient will, in the year that the restricted stock award is granted, recognize compensation taxable as ordinary income equal to the fair market value of the shares on the date of the award. Winland normally will receive a deduction equal to the amount of compensation the recipient is required to recognize as ordinary taxable income, and must comply with applicable tax withholding requirements.

Performance Share and Performance Unit Awards. A recipient of performance shares or performance units will recognize compensation taxable as ordinary income equal to the value of the shares of Common Stock or the cash received, as the case may be, in the year that the recipient receives payment. Winland normally will receive a deduction equal to the amount of compensation the recipient is required to recognize as ordinary taxable income, and must comply with applicable tax withholding requirements.

Stock Appreciation Rights. Generally, a recipient of a stock appreciation right will recognize compensation taxable as ordinary income equal to the value of the shares of Common Stock or the cash received in the year that the stock appreciation right is exercised. Winland normally will receive a deduction equal to the amount of compensation the recipient is required to recognize as ordinary taxable income, and must comply with applicable tax withholding requirements.

Equity Compensation Plan Information

The following table summarizes our equity compensation plan information as of December 31, 2008.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	468,800	$2.44	343,202(1)
Equity compensation plans not approved by security holders (2)	12,500	$3.52	0
TOTAL	481,300	$2.46	343,202

(1) Includes 190,202 shares available for issuance under Winland's 1997 Employee Stock Purchase Plan.

(2) The plans consist of three warrant agreements to purchase shares of Winland's Common Stock issued in 2006 as partial consideration for consulting services to the following: (i) Board Assets, Inc., a board evaluation and consulting firm – warrant to purchase 5,000 shares of Common Stock, which warrant vests upon performance of certain services and expires on February 16, 2016 (2,500 shares vested on July 17, 2006, and the remaining shares did not vest because the consulting arrangement has been terminated); and (ii) each of two principals of Genoa Business Advisors, LLC, a business consulting firm – warrant to purchase 10,000 shares of Common Stock, which vest in 5,000-share increments upon performance of certain services and expire on September 6, 2011 (10,000 shares vested on January 19, 2007, and the remaining shares did not vest because the consulting arrangement has been terminated).

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth certain information regarding compensation paid or accrued for our last fiscal year to our Chief Executive Officer, Chief Financial Officer and our two highest paid executive officers whose total compensation earned or accrued for fiscal year 2008 exceeded $100,000.

We have entered into employment agreements with each of the named executive officers, which agreements are described below.

Name and Principal Position	Year	Salary ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)(3)	Total ($)
Thomas J. de Petra	2008	$174,358	$15,925	$ -	$ -	$190,283
Chief Executive Officer and President						
Glenn Kermes	2008	$149,989	$32,039	$ -	$ 4,907	$186,935
Chief Financial Officer and Executive Vice President						
Warren E. Mitchell	2008	$118,558	$ 8,834	$ 20,000 (2)	$ -	$147,392
Vice President of Operations & Supply						
Gregory W. Burneske	2008	$123,594	$16,951	$ -	$ 4,121	$144,666
Vice President of Engineering						

(1) The amounts reflect the amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008 in accordance with FAS 123R of stock option awards pursuant to our 2008 Equity Incentive Plan, 2005 Equity Incentive Plan and 1997 Stock Option Plan. Assumptions used in the calculation of these amounts are included in footnote 7 to our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission.

(2) The amount represents cash incentive awards made pursuant to Mr. Mitchell’s employment agreement as noted below.

(3) Other Annual compensation for fiscal year 2008 consists of contributions to our 401(k) plan for the named executive officer’s benefit.

Employment Agreements

Thomas J. de Petra. On May 6, 2008, Winland entered into an employment agreement with Thomas J. de Petra, Chief Executive Officer and President which continues until either party terminates such agreement as provided in the agreement. Pursuant to the terms of the agreement, Mr. de Petra’s base salary beginning on April 24, 2008 is $202,000 and is subject to review at least annually. Pursuant to the employment agreement, if Mr. de Petra’s employment is terminated by Winland without cause or by Mr. de Petra for good reason, Mr. de Petra is entitled to his base salary for twelve months and health care benefits for six months; provided, however, if such termination occurs within two years after a change of control, Mr. de Petra will be entitled to an amount equal to his salary and bonus payments for the two completed fiscal years immediately preceding termination payable over the 24 months following the termination. During employment with Winland and for one year following termination of such employment, Mr. de Petra has agreed that he will not compete with Winland or solicit any of its employees, customers or contractors for employment or business purposes.

Glenn A. Kermes. On December 31, 2007, Winland entered into an Amendment to Employment Agreement with Glenn Kermes, Chief Financial Officer, dated January 23, 2007, which agreement continues until either party terminates such agreement as provided in the agreement. Pursuant to the terms of the amendment, Mr. Kermes’ base salary beginning January 1, 2009 is $185,000 and is subject to review at least annually. Pursuant to the employment agreement, as amended, if the Mr. Kermes’ employment is terminated by Winland without cause or by Mr. Kermes for good reason, Mr. Kermes is entitled to his base salary for six months and health care benefits for three months; provided, however, if such termination occurs within two years after a change of control, Mr. Kermes will be entitled to an amount equal to his salary and bonus payments for the one completed fiscal year immediately preceding termination payable over the 12 months following the termination. During employment with Winland and for one year following termination of such employment, pursuant to the amendment, Mr. Kermes has agreed that he will not compete with Winland or solicit any of its employees, customers or contractors for employment or business purposes.

Warren E. Mitchell. On February 4, 2008, Winland entered into an employment agreement with Warren Mitchell as Company’s Executive Supply Chain Leader. On June 11, 2008, Winland promoted Mr. Mitchell to Vice President of Operations and Supply. Mr. Mitchell’s base salary beginning January 1, 2009 is $149,350 and is subject to review at least annually pursuant to the agreement. Pursuant to the employment agreement, Mr. Mitchell’s employment may be terminated by Winland or by Mr. Mitchell for any or no reason. If, during the first six months of the new CEO’s employment, Mr. Mitchell is terminated without cause, or due to an organization restructure, Mr. Mitchell will be entitled to 6 months of his base salary. Also, if Mr. Mitchell is terminated (outside of the first six months of the new CEO’s employment) without cause or is impacted during a potential change of control of the company, his severance will be four months of the his base salary. During employment with Winland and for one year following termination of such employment, Mr. Mitchell has agreed that he will not compete with Winland or solicit any of its employees, customers or contractors for employment or business purposes.

Gregory W. Burneske. On May 17, 2004, Winland entered into an Employment Agreement with Gregory Burneske as Winland’s Vice President of Engineering which continues until either party terminates such agreement as provided in the agreement. Pursuant to the terms of the agreement, Mr. Burneske’s base salary beginning January 1, 2009 is $127,300 and is subject to review at least annually. Pursuant to the employment agreement, if Mr. Burneske’s employment is terminated by Winland without cause or by Mr. Burneske for good reason, Mr. Burneske is entitled to his base salary for six months and health care benefits for three months; provided, however, if such termination occurs within two years after a change of control, Mr. Burneske will be entitled to an amount equal to his salary and bonus payments for the one completed fiscal year immediately preceding termination payable over the 12 months following the termination. During employment with Winland and for one year following termination of such employment, pursuant to the amendment, Mr. Burneske has agreed that he will not compete with Winland or solicit any of its employees, customers or contractors for employment or business purposes.

Outstanding Equity Awards at Fiscal Year-End

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Un-exercisable	Option Exercise Price ($)	Option Expiration Date
Thomas J. de Petra	5,000	--	$3.00	05/11/2009
	5,500	--	$4.11	05/10/2015
	5,500	--	$4.48	05/09/2016
	5,500	--	$3.28	05/08/2017
	--	50,000 (1)	$1.74	05/06/2014
Glenn A. Kermes	14,400	21,600 (2)	$3.33	10/02/2012
	3,600	14,400 (3)	$2.55	11/08/2013
	--	12,000 (4)	$0.70	01/15/2015
Warren E. Mitchell	5,400	21,600 (5)	$2.13	02/04/2014
	--	9,000 (6)	$1.60	06/11/2014
Gregory W. Burneske	14,400	3,600 (7)	$3.00	05/17/2010
	10,800	7,200 (8)	$3.35	01/01/2012

(1) The stock option was granted on May 6, 2008. The option vests to the extent of 10,000 shares annually on the first five anniversary dates of the date of grant.

(2) The stock option was granted on October 2, 2006. The option vests to the extent of 7,200 shares annually on the first five anniversary dates of the date of grant.

(3) The stock option was granted on November 8, 2007. The option vests to the extent of 3,600 shares annually on the first five anniversary dates of the date of grant.

(4) The stock option was granted on January 15, 2009. The option vests to the extent of 2,400 shares annually on the first five anniversary dates of the date of grant.

(5) The stock option was granted on February 4, 2008. The option vests to the extent of 5,400 shares annually on the first five anniversary dates of the date of grant.

(6) The stock option was granted on June 11, 2008. The option vests to the extent of 1,800 shares annually on the first five anniversary dates of the date of grant.

(7) The stock option was granted on May 17, 2004. The option vests to the extent of 3,600 shares annually on the first five anniversary dates of the date of grant.

(8) The stock option was granted on January 1, 2006. The option vests to the extent of 3,600 shares annually on the first five anniversary dates of the date of grant.

CERTAIN TRANSACTIONS

During the two most recent fiscal years, we have not had any transactions in which any director or executive officer, or any other member of the immediate family of any director or executive officer, had a material direct or indirect interest reportable under applicable Securities and Exchange Commission rules, and there are no such transactions proposed.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Executive officers, directors and greater than 10% shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received, we believe that, during fiscal year 2008, all of our executive officers, directors and greater than ten-percent beneficial owners complied with the applicable filing requirements, except that Messrs. Goodmanson and Krueger each reported one transaction and Mr. Brady reported two transactions on a Form 4 that were not timely filed.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

McGladrey & Pullen, LLP has served as our independent registered public accounting firm since May 1998. Representatives of McGladrey & Pullen, LLP are expected to be present at the 2009 Annual Meeting, will be given an opportunity to make a statement regarding financial and accounting matters if they so desire, and will be available to respond to appropriate questions from our shareholders.

Audit Fees

We paid the following fees to McGladrey & Pullen, LLP or its affiliated entity RSM McGladrey, Inc. for fiscal years 2007 and 2008:

	2007	2008
Audit Fees	$222,000	$193,000
Tax Fees	90,000	48,000
	$312,000	$241,000

Audit fees are professional services rendered for the audit of our annual financial statements and review of financial statements included in our Forms 10-K and 10-Q. Tax fees include fees for services provided in connection with tax planning and tax compliance. Tax fees for 2007 included fees paid to RSM McGladrey, Inc. to perform a Research and Development Tax Credit Study for tax years 2003 thru 2006.

The Audit Committee has considered whether provision of the above non-audit services is compatible with maintaining accountants' independence and has determined that such services are compatible with maintaining accountants' independence.

Pre-Approval Policy

The Audit Committee has not formally adopted a policy for pre-approval of all audit and non-audit services by its independent auditors, but it has routinely approved all audit and permitted non-audit services to be performed for Winland by its independent auditors.

REPORT OF AUDIT COMMITTEE

The Board maintains an Audit Committee comprised of the three outside directors. The Board and the Audit Committee believe that the Audit Committee's current member composition satisfies the Listing Standards of the American Stock Exchange ("AMEX") that governs audit committees, Section 121(B), including the requirement that audit committee members all be "independent directors" as that term is defined by AMEX Listing Standards Section 121(A).

The Audit Committee has established a Disclosure Committee, comprised of executives and senior managers who are actively involved in the disclosure process, to specify, coordinate and oversee the review procedures that are used each quarter, including at fiscal year end, to prepare our periodic and current SEC reports.

In accordance with its written charter adopted by the Board (available on our website), the Audit Committee assists the Board with fulfilling its oversight responsibility regarding the quality and integrity of the accounting, auditing and financial reporting practices of Winland. In discharging its oversight responsibilities regarding the audit process, the Audit Committee:

(1) reviewed and discussed the audited financial statements with management;

(2) discussed with the independent registered public accounting firm the material required to be discussed by Statement on Auditing Standards No. 61, as amended; and

(3) reviewed the written disclosures and the letter from the independent registered public accounting firm required by the Independence Standards Board Standard No.1 and discussed with the independent registered public accounting firm any relationships that may impact their objectivity and independence.

Based upon the review and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission.

Members of the Audit Committee
Thomas J. Brady, Chairman
Thomas J. Goodmanson
Richard T. Speckmann

OTHER BUSINESS

Management knows of no other matters to be presented at the 2009 Annual Meeting. If any other matter properly comes before the 2009 Annual Meeting, the appointees named in the proxies will vote the proxies in accordance with their best judgment.

SHAREHOLDER PROPOSALS AND NOMINATIONS OF DIRECTOR CANDIDATES

Under the SEC Rules, we are required to provide the following information to you based on the assumption that the date for our annual meeting in 2010 will not deviate more than thirty (30) days from the date for the 2009 Annual Meeting: Any appropriate proposal submitted by a shareholder of Winland and intended to be presented at the 2010 Annual meeting of shareholders must be received by us by December 14, 2009 to be considered for inclusion in our proxy statement and related proxy for our annual meeting in 2010. Also, our Bylaws permit shareholders to make nominations for the election of directors and propose business to be brought before any regular meeting of shareholders, provided advance written notice of such nomination or proposal is received by us after February 8, 2010, but on or before March 8, 2010. According to our Bylaws, a shareholder nomination or proposal received outside of this time period will be considered untimely and the chairman of the meeting shall refuse to acknowledge such untimely nomination or proposal.

We will inform you of any changes of the aforesaid dates in a timely manner and will provide notice of the new dates in our earliest possible quarterly report on Form 10-Q.

Any shareholder nomination or proposal must provide the information required by our Bylaws and comply with any applicable laws and regulations. All submissions should be made to the Secretary of Winland Electronics at our principal offices at 1950 Excel Drive, Mankato, Minnesota 56001.

ANNUAL REPORT

A copy of our Annual Report to Shareholders for the fiscal year ended December 31, 2008, including financial statements, accompanies this Notice of Annual Meeting and Proxy Statement. No portion of the Annual Report is incorporated herein or is to be considered proxy soliciting material.

FORM 10-K

WE WILL FURNISH WITHOUT CHARGE TO EACH PERSON WHOSE PROXY IS BEING SOLICITED, UPON WRITTEN REQUEST OF ANY SUCH PERSON, A COPY OF OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING THE FINANCIAL STATEMENTS AND A LIST OF EXHIBITS TO SUCH FORM 10-K. WE WILL FURNISH TO ANY SUCH PERSON ANY EXHIBIT DESCRIBED IN THE LIST ACCOMPANYING THE FORM 10-K UPON THE ADVANCE PAYMENT OF REASONABLE FEES. REQUESTS FOR A COPY OF THE FORM 10-K AND/OR ANY EXHIBIT(S) SHOULD BE DIRECTED TO THE CHIEF FINANCIAL OFFICER OF WINLAND ELECTRONICS, INC., 1950 EXCEL DRIVE, MANKATO, MINNESOTA 56001. YOUR REQUEST MUST CONTAIN A REPRESENTATION THAT, AS OF MARCH 9, 2009, YOU WERE A BENEFICIAL OWNER OF SHARES ENTITLED TO VOTE AT THE 2009 ANNUAL MEETING OF SHAREHOLDERS.

BY ORDER OF THE BOARD OF DIRECTORS

Thomas J. Goodmanson
Chairman of the Board

Dated: March 26, 2009

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