

WINLAND ELECTRONICS INC

Form 10QSB

November 06, 2002

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

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended September 30,
2002

Commission File Number:
0-18393

WINLAND ELECTRONICS, INC.
(Name of small business issuer in its charter)

Minnesota
(state or other jurisdiction of
incorporation or organization)

41-0992135
(I.R.S. Employer
Identification Number)

1950 Excel Drive, Mankato, Minnesota 56001
(Address of principal executive offices)

(507) 625-7231
(Issuer's telephone number)

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

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

Check whether the Issuer (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 Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

There were 2,972,692 shares of Common Stock, \$.01 par value, outstanding as of October 30, 2002.

Transitional Small Business Disclosure Format (check one): Yes No

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BALANCE SHEETS**

ASSETS	September 30, 2002	December 31, 2001
	(UNAUDITED)	
Current Assets		
Cash	\$ 263,304	\$ 399,749
Accounts and notes receivable, net	2,244,913	1,993,983
Income tax receivable	23,003	177,000
Inventories	2,126,899	2,439,727
Prepaid expenses	168,656	100,191
Total current assets	4,826,775	5,110,650
Other Assets		
Patent and trademarks, net of amortization	699	1,027
Property and Equipment, at cost:		
Land and land improvements	272,901	272,901
Building	2,983,586	2,983,586
Machinery and equipment	3,735,486	3,675,897
Data processing equipment	1,303,961	1,301,598
Office furniture and equipment	352,834	353,932
Total property and equipment	8,648,768	8,587,914
Less accumulated depreciation	(4,430,962)	(3,884,440)
Net property and equipment	4,217,806	4,703,474
Total assets	\$ 9,045,280	\$ 9,815,151

See Notes to the Interim Financial Statements

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LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2002	December 31, 2001
	(UNAUDITED)	
Current Liabilities		
Note payable to bank	\$ 566,000	\$ 1,981,501
Current maturities of long-term debt	424,750	472,325
Accounts payable	977,278	931,385
Accrued expenses:		
Compensation	407,004	289,749
Other	192,352	68,024
Total current liabilities	2,567,384	3,742,984
Deferred Revenue	180,993	187,098
Long-Term Debt, less current maturities	2,194,810	2,453,909
Total long-term liabilities	2,375,803	2,641,007
Total liabilities	4,943,187	6,383,991
Stockholders' Equity		
Common stock	29,727	29,598
Additional paid-in capital	2,258,258	2,249,702
Retained earnings	1,814,108	1,151,860
Total stockholders' equity	4,102,093	3,431,160
Total liabilities and stockholders' equity	\$ 9,045,280	\$ 9,815,151

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WINLAND ELECTRONICS, INC.
STATEMENTS OF INCOME
For the Three Months Ended September 30, 2002 and 2001
(UNAUDITED)

	<u>2002</u>	<u>2001</u>
Net sales	\$ 4,038,930	\$ 3,195,580
Cost of sales	3,191,279	2,678,026
Gross profit	847,651	517,554
Operating expenses:		
General and administrative	323,881	453,837
Research and development	174,570	213,051
Sales and marketing	236,504	189,363
	734,955	856,251
Operating income (loss)	112,696	(338,697)
Other income (expenses):		
Interest expense	(61,188)	(109,520)
Other, net	658	14,056
	(60,530)	(95,464)
Income (loss) before income taxes	52,166	(434,161)
Income tax (expense) benefit	(22,000)	46,738
Net income (loss)	\$ 30,166	\$ (387,423)
Earnings (loss) per share data:		
Basic	\$ 0.01	\$ (0.13)
Diluted	0.01	(0.13)
Weighted-average number of common shares outstanding:		
Basic	2,970,627	2,955,872
Diluted	3,045,642	2,955,872

See Notes to the Interim Financial Statements

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WINLAND ELECTRONICS, INC.
STATEMENTS OF INCOME
For the Nine Months Ended September 30, 2002 and 2001
(UNAUDITED)

	<u>2002</u>	<u>2001</u>
Net sales	\$ 13,435,655	\$ 11,551,162
Cost of sales	<u>10,306,797</u>	<u>9,691,157</u>
Gross profit	<u>3,128,858</u>	<u>1,860,005</u>
Operating expenses:		
General and administrative	948,875	1,301,829
Research and development	489,038	675,328
Sales and marketing	<u>682,446</u>	<u>540,911</u>
	<u>2,120,359</u>	<u>2,518,068</u>
Operating income (loss)	<u>1,008,499</u>	<u>(658,063)</u>
Other income (expenses):		
Interest expense	(204,320)	(391,920)
Other, net	<u>4,070</u>	<u>26,312</u>
	<u>(200,250)</u>	<u>(365,608)</u>
Income (loss) before income taxes	<u>808,249</u>	<u>(1,023,671)</u>
Income tax (expense) benefit	<u>(146,000)</u>	<u>252,738</u>
Net income (loss)	<u>\$ 662,249</u>	<u>\$ (770,933)</u>
Earnings (loss) per share data:		
Basic	\$ 0.22	\$ (0.26)
Diluted	0.22	(0.26)
Weighted-average number of common shares outstanding:		
Basic	2,963,871	2,953,525
Diluted	3,013,365	2,953,525

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WINLAND ELECTRONICS, INC.
STATEMENTS OF CASH FLOWS
For the Nine Months Ended September, 2002 and 2001
(UNAUDITED)

	<u>2002</u>	<u>2001</u>
Cash Flows From Operating Activities		
Net income (loss)	\$ 662,249	\$ (770,933)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	569,427	599,374
Loss on disposal of equipment	3,232	10,954
Changes in assets and liabilities:		
Accounts and notes receivable	(250,930)	1,292,846
Income taxes receivable	153,997	(121,923)
Inventories	312,828	2,389,072
Prepaid expenses	(68,465)	(60,743)
Accounts payable	45,893	(1,337,041)
Accrued expenses, including deferred revenue	235,478	7,070
Net cash provided by operating activities	1,663,709	2,008,676
Cash Flows From Investing Activities		
Purchases of property and equipment	(86,664)	(49,576)
Proceeds from sale of equipment		18,150
Net cash used in investing activities	(86,664)	(31,426)
Cash flows From Financing Activities		
Net payments on revolving credit agreement	(1,415,501)	(1,305,000)
Payments on long-term borrowings, including capital lease obligations	(306,674)	(567,026)
Proceeds from issuance of common stock	8,685	3,782
Net cash used in financing activities	(1,713,490)	(1,868,244)
Net increase (decrease) in cash	(136,445)	109,006
Cash		
Beginning	399,749	38,961
End	\$ 263,304	\$ 147,967
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$ 204,091	\$ 392,139
Income tax (refund)	(17,084)	(130,815)

See Notes to Interim Financial Statements

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NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****Note 1. Basis of Presentation**

The accompanying unaudited financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission. In management's opinion all adjustments necessary for a fair presentation of the results for the interim period have been reflected in the interim financial statements. The results of operations for any interim period are not necessarily indicative of the results for a full year. All adjustments to the financial statements are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted. Such disclosures are those that would substantially duplicate information contained in the most recent audited financial statements of the Company, such as significant accounting policies, lease and license commitments and stock options. Management presumes that users of the interim statements have read or have access to the audited financial statements included in the Company's most recent annual report on Form 10-KSB.

Note 2. Inventories

Major components of inventory at September 30, 2002 and December 31, 2001 are as follows:

	September 30, 2002	December 31, 2001
Raw Materials	\$ 1,633,595	\$ 2,006,461
Work In Process	218,271	138,859
Finished Goods	430,406	429,407
Obsolescence reserve	(155,373)	(135,000)
Total	\$ 2,126,899	\$ 2,439,727

Note 3. Financing Arrangement

The Company had a \$3,500,000 revolving line-of-credit agreement through September 15, 2002. The bank extended the revolving line-of-credit agreement at a maximum of \$2,500,000 requested by the Company through March 31, 2003, with interest on advances set at two percentage points over the bank's reference rate (6.75 percent at September 30, 2002) and due monthly. Advances outstanding on the revolving line-of-credit agreement at September 30, 2002 and December 31, 2001, were \$566,000 and \$1,981,501, respectively.

Advances are due on demand, are secured by substantially all assets of the Company, and are subject to a defined borrowing base equal to 75 percent of qualified accounts receivable and 40 percent of eligible inventories. In addition, the agreement contains certain reporting and operating covenants. At September 30, 2002, the Company had additional borrowing capacity on the revolving line-of-credit of over \$1,934,000 according to the borrowing base formula. At September 30, 2002, the Company is in compliance with all covenants.

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As of September 30, 2002, options to purchase 339,000 shares of common stock were outstanding under the Company's 1997 Stock Option Plan, of which 214,000 shares were exercisable. At September 30, 2002, the exercise prices of all outstanding options range from \$.53 to \$2.938 per share.

Note 5. Paid Time Off Policy Change

Effective July 1, 2002 the Company changed its policy of accumulating separate vacation and sick hours by combining them into one pool called Paid Time Off (PTO). The PTO pool is now available to be used for either vacation or sick time. As a result, it was necessary to accrue a one-time expense of \$69,000, representing previously unaccrued sick time. This one-time expense is reflected in the results of the third quarter of 2002. The expense was distributed among the departments according to the sick leave balances at July 1, 2002.

Note 6. Major Customers and Enterprisewide Disclosures

Major Customers: The Company has customers that accounted for more than 10 percent of net sales for the three and nine months ended September 30, 2002 and 2001, as follows:

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001
Sales percentage:		
Customer A	46%	35%
Customer B	19%	16%

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Sales percentage:		
Customer A	49%	31%
Customer B	18%	15%

The net receivables at September 30, 2002 and December 31, 2001 for the above customers were as follows:

Accounts receivable percentage:		
Customer A	46%	38%
Customer B	16%	12%

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Enterprisewide Disclosures: The following table presents three-month revenues from external customers for each of the Company's groups of products and services:

**September 30,
2002**

**September 30,
2001**