

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

CRITICARE SYSTEMS INC /DE/

Form 10-Q

February 11, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
----- EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2002

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 number 0-16061

CRITICARE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

39-1501563

(State or other jurisdiction (IRS Employer Identification No.)
of incorporation or organization)

20925 Crossroads Circle, Suite 100, Waukesha, Wisconsin 53186

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number including area code (262) 798-8282

N/A

Former name, former address and former fiscal year,
if changed since last report.

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 X No
--- ---

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act). Yes No X
--- ---

Number of shares outstanding of each class of the registrant's classes of common
stock as of December 31, 2002: Voting Common Stock 11,204,024 shares.

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

CRITICARE SYSTEMS, INC. CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2002 AND JUNE 30, 2002

(UNAUDITED)

ASSETS	December 31, 2002	Ju
	-----	---
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,203,567	
Accounts receivable, less allowance for doubtful accounts of \$300,000	6,357,182	
Investments	925,460	
Other receivables	404,562	
Inventories	7,570,524	
Prepaid expenses	331,267	

Total current assets	19,792,562	
Property, plant and equipment - net	2,220,188	
License rights and patents - net	87,487	

TOTAL	\$ 22,100,237	
	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,606,819	
Accrued liabilities:		
Compensation and commissions	934,998	
Product warranties	325,000	
Other	403,549	
Current maturities of long-term debt	-	

Total current liabilities	5,270,366	
LONG-TERM DEBT, less current maturities	-	
OTHER LONG-TERM OBLIGATIONS	41,241	
STOCKHOLDERS' EQUITY:		
Preferred stock	-	
Common stock - \$.04 par value, 15,000,000 shares authorized, 11,204,024 and 11,199,524 shares issued and outstanding, respectively.	448,161	
Additional paid-in capital	23,358,742	
Common stock held in treasury (133,539 and 100,890 shares, respectively) .	(425,852)	
Subscriptions receivable	(225,000)	
Retained earnings (accumulated deficit)	(7,298,981)	
Cumulative translation adjustment	6,100	
Unrealized gain on investments	925,460	

Total stockholders' equity	16,788,630	

TOTAL	\$ 22,100,237	

=====

See notes to consolidated financial statements.

2

CRITICARE SYSTEMS, INC.
CONSOLIDATED INCOME STATEMENTS
SIX MONTHS ENDED DECEMBER 31, 2002 AND 2001

(UNAUDITED)

	2002	2001
	-----	-----
NET SALES	\$15,353,953	\$12,835,733
COST OF GOODS SOLD.	9,018,466	8,160,154
	-----	-----
GROSS PROFIT.	6,335,487	4,675,579
OPERATING EXPENSES:		
Sales and marketing	3,341,298	3,103,433
Research, development and engineering	1,385,655	1,167,701
Administrative.	2,088,761	1,243,596
	-----	-----
Total	6,815,714	5,514,730
LOSS FROM OPERATIONS.	(480,227)	(839,151)
OTHER INCOME (EXPENSE):		
Interest expense.	(91,533)	(124,947)
Interest income	28,528	47,999
Other	431,752	39,777
	-----	-----
Total	368,747	(37,171)
LOSS BEFORE INCOME TAXES.	(111,480)	(876,322)
INCOME TAX PROVISION.	-	-
	-----	-----
NET LOSS.	\$ (111,480)	\$ (876,322)
	=====	=====
NET LOSS PER COMMON SHARE:		
Basic	\$ (0.01)	\$ (0.08)
Diluted	\$ (0.01)	\$ (0.08)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	11,071,264	10,761,035

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

Diluted 11,071,264 10,761,035

See notes to consolidated financial statements.

3

CRITICARE SYSTEMS, INC. CONSOLIDATED INCOME STATEMENTS THREE MONTHS ENDED DECEMBER 31, 2002 AND 2001 (UNAUDITED)

	2002	2001
	-----	-----
NET SALES	\$ 9,049,606	\$ 7,346,596
COST OF GOODS SOLD.	5,111,466	4,482,453
	-----	-----
GROSS PROFIT.	3,938,140	2,864,143
OPERATING EXPENSES:		
Sales and marketing	2,014,338	1,503,078
Research, development and engineering	756,715	580,618
Administrative.	1,131,531	582,818
	-----	-----
Total	3,902,584	2,666,514
INCOME FROM OPERATIONS.	35,556	197,629
OTHER INCOME (EXPENSE):		
Interest expense.	-	(62,271)
Interest income	12,662	14,954
Other	131,953	35,201
	-----	-----
Total	144,615	(12,116)
INCOME BEFORE INCOME TAXES.	180,171	185,513
INCOME TAX PROVISION.	-	-
	-----	-----
NET INCOME.	\$ 180,171	\$ 185,513
	=====	=====
NET INCOME PER COMMON SHARE:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	11,069,846	10,789,041
Diluted	11,382,915	11,499,734

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

See notes to consolidated financial statements.

4

CRITICARE SYSTEMS, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED DECEMBER 31, 2002 AND 2001

(UNAUDITED)

	2002	2001
	-----	-----
OPERATING ACTIVITIES:		
Net loss.	\$ (111,480)	\$ (876,322)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	453,725	389,675
Amortization	3,500	3,501
Provision for doubtful accounts.	-	-
Provision for obsolete inventory	(177,813)	-
Gain on sale of Immtech stock.	(255,843)	-
Gain on sale of building	(41,208)	-
Changes in assets and liabilities:		
Accounts receivable	(875,230)	1,616,061
Other receivables	97,786	15,341
Inventories	(145,120)	323,847
Prepaid expenses.	122,080	129,867
Accounts payable.	1,275,323	(1,361,629)
Accrued liabilities	146,219	(310,776)
	-----	-----
Net cash provided by (used in) operating activities	491,939	(70,435)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment, net . .	(557,597)	(147,820)
Proceeds from sale of Immtech stock	255,843	-
Proceeds from sale of building.	3,795,164	-
	-----	-----
Net cash provided by (used in) investing activities	3,493,410	(147,820)
FINANCING ACTIVITIES:		
Retirement of long-term debt.	(3,197,125)	(42,223)
Repurchase of Company common stock	(121,359)	-
Proceeds from issuance of common stock.	13,364	355,532
	-----	-----
Net cash (used in) provided by financing activities	(3,305,120)	313,309
EFFECT OF EXCHANGE RATE CHANGES ON CASH	268	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	680,497	95,054
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR. . . .	3,523,070	3,362,104
	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR.	\$ 4,203,567	\$ 3,457,158
	=====	=====

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

See notes to consolidated financial statements.

5

CRITICARE SYSTEMS, INC. Condensed Notes to Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared by Criticare Systems, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of the Company, include all adjustments necessary for a fair statement of results for each period shown. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. The Company believes that the disclosures made are adequate to prevent the financial information given from being misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest annual report and previously filed Form 10-K. Certain amounts from the fiscal 2002 financial statements have been reclassified to conform to the fiscal 2003 presentation.

2. INVENTORY VALUATION

Inventory is stated at the lower of cost or market, with cost determined on the first-in, first-out method. Components of inventory consisted of the following at December 31 and June 30, 2002, respectively:

	December 31, 2002	June 30, 2002
	-----	-----
Component parts	\$ 3,205,548	\$ 3,549,397
Work in process	772,661	499,950
Finished units	4,360,502	4,031,456
	-----	-----
Total inventories	8,338,711	8,080,803
Less: reserve for obsolescence	768,187	946,000
	-----	-----
Net inventory	\$ 7,570,524	\$ 7,134,803

3. INVESTMENTS

In October of 2002 the Company sold 4,000 shares of its Immtech International, Inc. ("Immtech") common stock and realized a gain of \$14,097 and in July and August of 2002 the Company sold 50,000 shares of Immtech common stock and realized a gain of \$241,746. The Company held 402,374 shares of Immtech stock, which was trading at \$2.30 per share, on December 31, 2002. The market value of

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

these shares could change substantially due to overall market risk.

6

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31, 2002	June 30, 2002
	-----	-----
Land and building	\$ -	\$ 4,525,000
Machinery and equipment	2,194,290	2,007,322
Furniture and fixtures	908,896	809,277
Construction in progress	-	116,798
Leasehold improvements	207,969	-
Demonstration and loaner monitors . .	1,282,040	1,616,766
Production tooling	3,499,560	3,425,117
	-----	-----
Property, plant and equipment - cost	8,092,755	12,500,280
Less: accumulated depreciation . .	5,872,567	6,517,220
	-----	-----
Property, plant and equipment - net.	\$ 2,220,188	\$ 5,983,060

On August 30, 2002, the Company sold its building in Waukesha, Wisconsin and leased back approximately 62% of the building's square footage. The building was sold for \$4,000,000 and a gain of \$41,208 was realized on the sale after the payment of commissions and fees and the funding of \$105,396 in capitalized build out costs needed to split the building into two leasable spaces. The proceeds from the sale were used to retire the \$3,182,160 of debt on the Company's balance sheet at August 30, 2002 and increased the Company's cash position by approximately \$500,000.

5. CONTINGENCIES

The import and export rules applicable to all United States companies engaged in international business transactions contain compliance guidelines. Violations may result in civil or criminal penalties, or both, as well as the potential loss of export privileges.

On August 6, 2002, in part due to the new regulations imposed under the Sarbanes-Oxley Act, the Company initiated an internal review of its import and export procedures. On August 28, 2002, senior management of the Company became aware of previous events that may have violated United States import/export laws and regulations. Senior management of the Company immediately authorized an internal audit of these possible violations, focusing on the sale of medical equipment directly or indirectly into an embargoed country and possible marking issues.

The factual investigation pursuant to the internal audit is complete, no additional compliance issues arose, and no material marking issues were identified as a result of the investigation.

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

Subsequently, the Company has taken action to adopt and implement a written compliance program with respect to applicable import/export rules. The Company has also undertaken a voluntary disclosure with the relevant government agencies and has filed its completed internal audit report and all requested documents. Although there is no assurance, based upon the results of the completed internal audit and precedents, the Company believes a negotiated settlement of any violations will not have a material adverse effect on the Company. In addition, the Company does not believe that the audit result supports the denial of export privileges; however, any such penalty would have a material adverse effect on the Company's business. The Company further believes that the voluntary disclosure, along with other internal actions taken, will serve to mitigate any potential adverse consequences that otherwise might accrue.

7

CRITICARE SYSTEMS, INC. Management's Discussion and Analysis of Results of Operations and Financial Condition Six Months Ended December 31, 2002 and 2001

RESULTS OF OPERATIONS

Record net sales in the fiscal second quarter ended December 31, 2002 increased year-to-date sales for the six months ended December 31, 2002 over \$2.5 million, or 19.6%, above the prior year period. The Company's domestic, international, OEM, and governmental sales all were higher than the prior year period, with OEM and domestic sales contributing most significantly to the sales increase. A 21.4% increase in the number of units shipped and a 7.5% increase in the average selling price per unit drove the higher year-to-date sales.

The gross profit percentage for the first six months of the current year of 41.3% improved almost five points from the 36.4% generated for the first six months of the prior year. The significantly higher sales in the current year resulted in a better utilization of fixed manufacturing costs and was the main contributor to the improved margins. In addition, due to the outsourcing of the majority of the Company's products, approximately \$310,000 of fixed costs that had previously been classified as manufacturing expenses were more appropriately included in administrative expenses in the current year and improved margins.

Operating expenses for the six months ended December 31, 2002 were higher than the same period in the prior year by \$1.3 million, with over \$1.2 million of the increased spending occurring in the Company's second fiscal quarter ending December 31, 2002. The higher operating expenses in the quarter were mainly driven by one time type costs incurred, including \$103,000 to launch the Company's new line of proprietary anesthesia monitoring products, significant legal and consulting fees related to the internal review conducted by the Company of its import and export procedures totaling approximately \$285,000, and a final payment of \$150,000 made to the Company's former CEO and founder to satisfy past severance obligation issues. Also contributing to the increase in operating expenses was the \$310,000 reclassification of fixed manufacturing costs discussed above to administrative expense, higher trade show and related sales travel expenses to attend three large medical trade shows held during the quarter that increased spending \$211,000 from the prior year, and a \$188,000 increase in employee and dealer commissions driven by the strong fiscal second quarter sales. Operating expenses are expected to return closer to historical levels in future quarters as the internal review winds down and the costs to support the newly released anesthesia products are reduced. See "Forward-Looking Statements."

Other income improved \$405,918 for the six months ended December 31, 2002 from

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

the same period in the prior year due mainly to the recognition of a \$255,843 gain on the sale of 54,000 shares of the Company's Immtech International, Inc. stock, \$100,000 in profits recognized on the successful completion of the Company's first medical equipment integration project in Romania, and a \$41,208 gain on the sale of the Company's building.

The significantly higher sales, improved margins, and increase in other income for the six months ended December 31, 2002 more than offset the higher operating expenses, resulting in a net loss of \$111,480 that was \$764,842 better than the \$876,322 net loss in the prior year period.

8

CRITICARE SYSTEMS, INC. Management's Discussion and Analysis of Results of Operations and Financial Condition Three Months Ended December 31, 2002 and 2001

RESULTS OF OPERATIONS

Record quarterly net sales for the three months ended December 31, 2002 of \$9,049,606 increased 23.2% from the same period in the prior year, driven by a 26.3% increase in the number of units shipped and a 7.9% increase in the average selling price per unit. Net sales of the Company's core 506DX and 8100 vital signs monitors were \$1,203,577 higher in the current quarter. These higher sales, combined with a \$357,800 increase in defibrillator sales and \$162,226 of new sales from the Company's recently released anesthesia monitors drove the increase in sales to a quarterly record level for the three months ended December 31, 2002.

The gross profit percentage of 43.5% for the three months ended December 31, 2002 improved significantly from the 39.0% produced in the same period in the prior year and represented the strongest quarterly margin performance in three years. The record sales volume in the current period resulted in a better utilization of fixed manufacturing costs and was the main driver of the higher margins. In addition, due to the outsourcing of the majority of the Company's products, approximately \$170,000 of fixed costs that had previously been classified as manufacturing expenses were more appropriately included in administrative expenses in the current period ended December 31, 2002 and improved margins when compared to the same period in the prior year.

Operating expenses for the three months ended December 31, 2002 increased \$1,236,070 from the same period in the prior year and more than offset the favorable impact of higher sales and improved margins. The higher operating expenses were mainly driven by the one time type costs incurred and discussed above to launch the Company's new line of proprietary anesthesia monitoring products, significant legal and consulting fees related to the internal review conducted by the Company of its import and export procedures, and a final payment made to the Company's former CEO and founder to satisfy past severance obligation issues. Also contributing to the increase in operating expenses was the reclassification of fixed manufacturing costs discussed above to administrative expense, higher trade show and related sales travel expenses to attend three large medical trade shows held during the quarter, and an increase in employee and dealer commissions driven by the strong fiscal second quarter sales. Operating expenses are expected to return closer to historical levels in future quarters as the internal review winds down and the costs to support the newly released anesthesia products are reduced. See "Forward-Looking Statements."

Other income improved \$156,731 for the three months ended December 31, 2002 from

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

the same period in the prior year due mainly to the successful completion of the Company's first medical equipment integration project in Romania in which the Company realized a \$100,000 share of the profits from the transaction. In addition, the Company eliminated its interest expense in the current quarter due to the retirement of the Company's mortgage in its fiscal first quarter ending September 30, 2002, saving \$62,271 in interest expense that was incurred in the prior year period.

The record sales, improved margins, and higher other income for the three months ended December 31, 2002 offset the majority of the increase in operating expenses incurred in the current period, resulting in net income of \$180,171 that was basically level to the \$185,513 of net income in the prior year period.

9

CRITICARE SYSTEMS, INC. Management's Discussion and Analysis of Results of Operations and Financial Condition

Liquidity and Capital Resources

As of December 31, 2002, the Company had a cash balance of \$4,203,567, an increase of \$680,497 from its balance at June 30, 2002, and a long-term debt free balance sheet due to the sale of the Company's building in the current fiscal year. The Company sold its building in Waukesha, Wisconsin in August of 2002, leased back approximately 62% of its square footage, and used the proceeds from the sale to retire the long-term debt on the balance sheet. The sale of the building increased the Company's cash position by approximately \$500,000 and was the main contributor to the increase in cash from its balance of \$3,362,104 at June 30, 2002.

Other significant events impacting cash flows for the six months ended December 31, 2002 included the sale of 54,000 shares of the Company's Immtech International, Inc. stock that resulted in the recognition of a realized gain of \$255,843. The Company held 402,374 shares of Immtech stock after the sale of these shares that was trading at \$2.30 per share on December 31, 2002. Also, in accordance with the authorized buyback of up to 500,000 shares of the Company's common stock by the Board of Directors in the third quarter of fiscal 2002, the Company purchased 35,100 shares of common stock at a cost of \$121,359 in the first quarter of fiscal 2003. No shares were purchased in the second fiscal quarter ended December 31, 2002. The Company has acquired a total of 76,223 shares of its common stock under this approved stock buyback.

The Company believes all capital and liquidity requirements for the remainder of fiscal 2003 will be satisfied by cash generated from operations and its current cash balances. No major capital equipment expenditures are expected in the last six months of the fiscal year ending June 30, 2003. The Company also has a \$4,000,000 line of credit currently in place that expires in November 2003 that could be utilized, if necessary. At December 31, 2002, there were no borrowings outstanding under this line of credit.

Forward Looking Statements

A number of the matters and subject areas discussed herein that are not historical or current facts deal with potential future circumstances and developments. These include anticipated product introductions, expected future financial results, liquidity needs, financing ability, management's or the Company's expectations and beliefs and similar matters discussed in Management's Discussion and Analysis or elsewhere herein. The discussions of such matters

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

and subject areas are qualified by the inherent risk and uncertainties surrounding future expectations generally, and also may materially differ from the Company's actual future experience.

10

The Company's business, operations and financial performance are subject to certain risks and uncertainties which could result in material differences in actual results from management's or the Company's current expectations. These risks and uncertainties include, but are not limited to, general economic conditions, demand for the Company's products, costs of operations, the development of new products, the reliance on single sources of supply for certain components in the Company's products, government regulation, health care cost containment programs, the effectiveness of the Company's programs to manage working capital and reduce costs, competition in the Company's markets, compliance with product safety regulations and product liability and product recall risks, risks relating to international sales and compliance with U.S. export regulations, unanticipated difficulties in outsourcing the manufacturing of the majority of its products to foreign manufacturers and risks related to foreign manufacturing, including economic and political instability, trade and foreign tax laws, production delays and cost overruns and quality control, and the Company's ability to reduce costs by eliminating excess capacity at its principal facility.

CONTROLS AND PROCEDURES

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic filings with the Securities and Exchange Commission. It should be noted that in designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

11

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The annual meeting of stockholders of the Company was held on December 6, 2002. The matters voted upon, including the number of votes cast for, against, or withheld, as well as the number of abstentions and broker non-votes, as to each such matter were as follows:

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

Proposal 1: Election of directors for a term ending at the 2005 annual meeting of stockholders.

	For -----	Withheld -----
Jeffrey T. Barnes. . .	9,440,751	628,937
N.C. Joseph Lai, Ph.D.	9,404,061	665,627

The Company's other directors consist of Karsten Houm, Emil H. Soika and Stephen K. Tannenbaum (whose terms end at the 2003 annual meeting of stockholders) and Milton Datsopoulos and Higgins D. Bailey, Ed.D (whose terms end at the 2004 annual meeting of stockholders).

Proposal 2: Approve and adopt proposed amendment to the Criticare Systems, Inc. 1992 Employee Stock Option Plan.

For ---	Against -----	Abstain -----	Broker Non-Votes -----
8,737,022	1,224,516	108,150	0

Proposal 3: Ratification of appointment of BDO Seidman, LLP as auditors of the Company.

For ---	Against -----	Abstain -----	Broker Non-Votes -----
9,997,871	28,900	42,917	0

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

- 3.1 Restated Certificate of Incorporation of the Company (incorporated by reference to the Registration Statement filed on Form S-1, Registration No. 33-13050).
- 3.2 By-Laws of the Company (incorporated by reference to the Registration Statement filed on Form S-1, Registration No. 33-13050).
- 4.1 Specimen Common Stock certificate (incorporated by reference to the Registration Statement filed on Form S-1, Registration No. 33-13050).
- 4.2 Rights Agreement (incorporated by reference to the Company's Current Report on Form 8-K filed on April 18, 1997).
- 10.1 Criticare Systems, Inc. 1992 Employee Stock Option Plan, as amended (incorporated by reference to the Proxy Statement for the 2002 Annual Meeting of Stockholders filed on October 28, 2002).

(b) Reports on Form 8-K: None in the quarter ended December 31, 2002.

12

SIGNATURES

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

CRITICARE SYSTEMS, INC.
(Registrant)

Date: February 11, 2003

BY /s/ Michael J. Sallmann

Michael J. Sallmann
Vice President - Finance
(Chief Accounting Officer and
Duly Authorized Officer)

13

CERTIFICATIONS

I, Emil H. Soika, President and Chief Executive Officer of Criticare Systems, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Criticare Systems, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly 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-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

14

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 6, 2003

/s/ Emil H. Soika

Emil H. Soika
President and Chief Executive Officer

15

CERTIFICATIONS

I, Michael J. Sallmann, Vice President - Finance and Secretary of Criticare Systems, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Criticare Systems, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly 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-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure

Edgar Filing: CRITICARE SYSTEMS INC /DE/ - Form 10-Q

controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

16

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 11, 2003

/s/ Michael J. Sallmann

Michael J. Sallmann
Vice President - Finance and Secretary

17