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CRITICARE SYSTEMS INC /DE/
Form 10-Q
May 14, 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 March 31, 2003

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 of
incorporation or organization)

(IRS Employer Identification No.)

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 March 31, 2003: Common Stock, \$0.04 par value, 11,204,024 shares.

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CRITICARE SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2003 AND JUNE 30, 2002

(UNAUDITED)

ASSETS	March 31, 2003	June 30, 2002
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,163,809	\$ 3,523,000
Accounts receivable, less allowance for doubtful accounts of \$300,000	5,424,820	5,481,900
Investments	-	2,304,600
Other receivables	291,199	502,300
Inventories	7,400,307	7,134,800
Prepaid expenses	332,368	453,300
	-----	-----
Total current assets	18,612,503	19,400,200
Property, plant and equipment - net	2,213,200	5,983,000
License rights and patents - net	85,736	90,900
	-----	-----
TOTAL	\$20,911,439	\$25,474,200
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,154,129	\$ 2,331,400
Accrued liabilities:		
Compensation and commissions	800,492	770,500
Product warranties	327,692	248,700
Other	264,792	490,900
Current maturities of long-term debt	-	93,500
	-----	-----
Total current liabilities	4,547,105	3,935,300
LONG-TERM DEBT, less current maturities	-	3,103,500
OTHER LONG-TERM OBLIGATIONS	37,766	48,300
STOCKHOLDERS' EQUITY:		
Preferred stock - \$.04 par value, 500,000 shares authorized, no shares issued or outstanding	-	-
Common stock - \$.04 par value, 15,000,000 shares authorized, 11,204,024 and 11,199,524 shares issued, respectively	448,161	447,900
Additional paid-in capital	23,359,731	23,350,100
Common stock held in treasury (132,076 and 100,890 shares, respectively)	(423,127)	(309,000)
Subscriptions receivable	(225,000)	(225,000)
Retained earnings (accumulated deficit)	(6,839,297)	(7,187,500)
Cumulative translation adjustment	6,100	5,800
Unrealized gain on investments	-	2,304,600
	-----	-----

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Total stockholders' equity	16,326,568	18,387,0
TOTAL	\$20,911,439	\$25,474,2

See notes to consolidated financial statements.

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CRITICARE SYSTEMS, INC.
CONSOLIDATED INCOME STATEMENTS
NINE MONTHS ENDED MARCH 31, 2003 AND 2002

(UNAUDITED)

	2003	2002
	-----	-----
NET SALES	\$21,857,740	\$19,238,364
COST OF GOODS SOLD	13,041,237	12,195,255
	-----	-----
GROSS PROFIT	8,816,503	7,043,109
OPERATING EXPENSES:		
Sales and marketing	4,875,229	4,105,055
Research, development and engineering	2,078,572	1,737,343
Administrative	2,977,022	2,241,884
	-----	-----
Total	9,930,823	8,084,282
LOSS FROM OPERATIONS	(1,114,320)	(1,041,173)
OTHER INCOME (EXPENSE):		
Interest expense	(91,533)	(185,457)
Interest income	40,544	61,932
Other	1,513,513	53,592
	-----	-----
Total	1,462,524	(69,933)
INCOME (LOSS) BEFORE INCOME TAXES	348,204	(1,111,106)
INCOME TAX PROVISION	-	-
	-----	-----
NET INCOME (LOSS)	\$ 348,204	\$(1,111,106)
	=====	=====
NET INCOME (LOSS) PER COMMON SHARE:		
Basic	\$ 0.03	\$ (0.10)
Diluted	\$ 0.03	\$ (0.10)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	11,071,267	10,815,814
Diluted	11,423,100	10,815,814

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See notes to consolidated financial statements.

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CRITICARE SYSTEMS, INC.
CONSOLIDATED INCOME STATEMENTS
THREE MONTHS ENDED MARCH 31, 2003 AND 2002

(UNAUDITED)

	2003	2002
	-----	-----
NET SALES	\$ 6,503,787	\$ 6,402,631
COST OF GOODS SOLD	4,022,771	4,035,101
	-----	-----
GROSS PROFIT	2,481,016	2,367,530
OPERATING EXPENSES:		
Sales and marketing	1,533,931	1,001,622
Research, development and engineering	692,917	569,642
Administrative	888,261	998,288
	-----	-----
Total	3,115,109	2,569,552
LOSS FROM OPERATIONS	(634,093)	(202,022)
OTHER INCOME (EXPENSE):		
Interest expense	-	(60,509)
Interest income	12,016	13,933
Other	1,081,761	13,814
	-----	-----
Total	1,093,777	(32,762)
INCOME (LOSS) BEFORE INCOME TAXES	459,684	(234,784)
INCOME TAX PROVISION	-	-
	-----	-----
NET INCOME (LOSS)	\$ 459,684	\$ (234,784)
	=====	=====
NET INCOME (LOSS) PER COMMON SHARE:		
Basic	\$ 0.04	\$ (0.02)
Diluted	\$ 0.04	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	11,071,273	10,927,806
Diluted	11,370,087	10,927,806

See notes to consolidated financial statements.

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CRITICARE SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED MARCH 31, 2003 AND 2002

(UNAUDITED)

	2003	2002
	-----	-----
OPERATING ACTIVITIES:		
Net income (loss)	\$ 348,204	\$(1,111,106)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	713,839	633,934
Amortization	5,251	5,251
Provision for doubtful accounts	-	(386,000)
Provision for obsolete inventory	184,225	451,000
Gain on sale of Immtech stock	(1,290,252)	-
Gain on sale of fixed assets	(41,208)	(5,292)
Changes in assets and liabilities:		
Accounts receivable	57,132	1,106,615
Other receivables	211,149	12,215
Inventories	(473,197)	390,567
Prepaid expenses	120,979	102,077
Accounts payable	822,633	(1,426,783)
Accrued liabilities	(127,827)	(473,349)
	-----	-----
Net cash provided by (used in) operating activities . .	530,928	(700,871)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment, net	(674,757)	(194,453)
Proceeds from sale of Immtech stock	1,290,252	-
Proceeds from sale of building	3,795,164	-
Proceeds from sale of fixed assets	-	5,500
	-----	-----
Net cash provided by (used in) investing activities . .	4,410,659	(188,953)
FINANCING ACTIVITIES:		
Retirement of long-term debt	(3,197,125)	(64,945)
Repurchase of Company common stock	(121,359)	-
Proceeds from issuance of common stock	17,368	452,851
	-----	-----
Net cash (used in) provided by financing activities . .	(3,301,116)	387,906
EFFECT OF EXCHANGE RATE CHANGES ON CASH	268	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS . .	1,640,739	(501,918)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,523,070	3,362,104
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,163,809	\$ 2,860,186
	=====	=====

See notes to consolidated financial statements.

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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 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 March 31, 2003 and June 30, 2002, respectively:

	March 31, 2003	June 30, 2002
	-----	-----
Component parts	\$ 2,818,491	\$ 3,549,397
Work in process	702,641	499,950
Finished units	4,342,987	4,031,456
	-----	-----
Total inventories	7,864,119	8,080,803
Less: reserve for obsolescence	463,812	946,000
	-----	-----
Net inventory	\$ 7,400,307	\$ 7,134,803

3. INVESTMENTS

During fiscal 2003, the Company completely liquidated its position in its Immtech International, Inc. ("Immtech") common stock. The Company sold all 456,374 Immtech shares it held and realized the following gains in the first three quarters of fiscal 2003:

	Shares Sold	Realized Gain
	-----	-----
1st quarter ended September 30, 2002	50,000	\$ 241,746
2nd quarter ended December 31, 2002	4,000	14,096

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3rd quarter ended March 31, 2003	402,374	1,034,410
	-----	-----
Total	456,374	\$1,290,252

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	March 31, 2003	June 30, 2002
	-----	-----
Land and building	\$ -	\$ 4,525,000
Machinery and equipment	2,213,520	2,007,322
Furniture and fixtures	910,801	809,277
Construction in progress	-	116,798
Leasehold improvements	212,229	-
Demonstration and loaner monitors . .	1,400,295	1,616,766
Production tooling	3,574,889	3,425,117
	-----	-----
Property, plant and equipment - cost	8,311,734	12,500,280
Less: accumulated depreciation . .	6,098,534	6,517,220
	-----	-----
Property, plant and equipment - net.	\$ 2,213,200	\$ 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.

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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.

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

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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.

6. SUBSCRIPTIONS RECEIVABLE

Subscriptions receivable represents common stock issued in May 2002 to two directors of the Company, Milton Datsopoulos and Karsten Houm, related to expiring stock options. The shares were issued and promissory notes payable in the amount of \$112,500 were executed by each of the directors for the exercise price of the stock options. In February 2003 these two directors retired from the Board. After their retirement, the promissory notes were refinanced through the issuance of two new notes dated March 1, 2003. These notes are non-interest bearing and are due and payable on May 6, 2004. Each of the retired directors have pledged the shares issued as collateral for these loans.

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7. STOCK OPTIONS

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". If the Company had elected to recognize compensation cost for the options granted for the nine months and three months ended March 31, 2003 and 2002, consistent with the method prescribed by SFAS No. 123, net income (loss) and net income (loss) per share would have been changed to the pro forma amounts indicated below:

	Nine months ended March 31	Three
	2003	2002
	-----	-----
Net income (loss) - as reported	\$348,204	\$(1,111,106)
Net income (loss) - pro forma	\$208,178	\$(1,209,484)
Basic net income (loss) per share - as reported . .	\$0.03	\$(0.10)
Basic net income (loss) per share - pro forma . . .	\$0.02	\$(0.11)
Diluted net income (loss) per share - as reported .	\$0.03	\$(0.10)
Diluted net income (loss) per share - pro forma . .	\$0.02	\$(0.11)

The fair value of stock options used to compute pro forma net income (loss) and net income (loss) per share is the estimated present value at the grant date using the Black-Scholes option-pricing model.

8. GUARANTEE

Criticare Integration, Inc., a wholly owned U.S. subsidiary of Criticare Systems, Inc., was incorporated on April 8, 2003 to supply medical equipment and supplies to medical facilities in countries in the Black Sea Economic Zone

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(Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Romania, and the Ukraine). Criticare Systems, Inc. has set up a standby letter of credit for \$300,000 on behalf of Criticare Integration that acts as a guarantee related to this new venture. The standby letter of credit serves as a guarantee for a \$2,000,000 line of credit that has been extended by a large Austrian bank to fund this project. The standby letter of credit expires on November 15, 2003 and would only be called if the Austrian bank had significant collection problems with the project. No collection problems are anticipated as stringent credit policies are in place and the right to repossess the equipment is maintained.

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CRITICARE SYSTEMS, INC.
Management's Discussion and Analysis of
Results of Operations and Financial Condition
Nine Months Ended March 31, 2003 and 2002

RESULTS OF OPERATIONS

Net sales of \$21.9 million for the nine months ended March 31, 2003 were up 13.6% from the \$19.2 million of net sales generated for the same period in the prior year. The Company's domestic, international, and OEM sales were all higher than the prior year period, with domestic and OEM sales contributing most significantly to the sales increase. A 16.8% increase in the number of units shipped and a 6.5% increase in the average selling price per unit, partially offset by a 12.0% decrease in accessory sales, drove the higher year-to-date sales.

The gross profit percentage for the first nine months of the current year of 40.3% improved almost four points from the 36.6% generated for the first nine months of the prior year. The higher sales in the current year resulted in a better utilization of fixed manufacturing costs and was the main contributor to the improved margins.

Operating expenses for the nine months ended March 31, 2003 were higher than the same period in the prior year by \$1.8 million. Administrative expenses increased \$735,138 due mainly to legal and consulting fees related to the internal review conducted by the Company of its import and export procedures that totaled approximately \$421,000, and a final payment of \$150,000 made to the Company's former CEO and founder to satisfy past severance obligation issues. Research, development and engineering expenses were up \$341,229 in the current year due mostly to a \$319,000 increase in combined labor costs and project spending incurred to launch the Company's new line of proprietary anesthesia monitoring products. Sales and marketing expenses were \$770,174 higher in the current year due mostly to a \$386,000 reduction in the reserve for bad debts that was recorded in the prior year, driven by cash collections on an at risk receivable that had been specifically reserved for. In addition, a \$275,000 increase in employee and dealer commissions and bonus driven by the higher sales, and a \$97,000 increase in trade show spending to support the rollout of the Company's new anesthesia products contributed to the higher sales and marketing expenses in the current year.

Total other income in the current year of \$1,462,524 more than offset the increase in operating expenses, resulting in a bottom line profit of \$348,204 that was \$1,459,310 better than the \$1,111,106 net loss in the prior year. The other income consisted mainly of a \$1,290,252 gain recognized on the sale of the Company's investment in Immtech International, Inc. Also contributing to the higher other income was \$93,000 in profits recognized on a medical integration project in Romania and a \$41,208 gain on the sale of the Company's building.

CRITICARE SYSTEMS, INC.
Management's Discussion and Analysis of
Results of Operations and Financial Condition
Three Months Ended March 31, 2003 and 2002

RESULTS OF OPERATIONS

Net sales for the three months ended March 31, 2003 of \$6.5 million were up slightly from the \$6.4 million for the same period in fiscal 2002. A 7.0% increase in the number of units shipped in the quarter and a 4.7% increase in the average selling price per unit more than offset a \$391,582 reduction in accessory sales. Higher domestic and international sales in the quarter, combined with the Company's first shipment of Criticare products to Romania totaling \$260,260, more than offset lower OEM and government sales.

The gross profit percentage for the three months ended March 31, 2003 of 38.1% was up from 37.0% for the same period in the prior year. The slightly improved margins in the current quarter was driven mainly by sales of the Company's recently introduced and higher margin anesthesia products.

Operating expenses for the three months ended March 31, 2003 were up \$545,557 from the same period in the prior year due mainly to a \$532,309 increase in sales and marketing expenses. As noted above, the prior year period included a \$386,000 reduction in the reserve for bad debts and related bad debt expense, driven by cash collections on an at risk receivable that had been specifically reserved for. In addition, a \$58,000 increase in employee and dealer commissions driven by the higher domestic sales and a \$61,000 increase in trade show and related sales travel expenses also contributed to the higher sales and marketing expenses in the current period.

Other income improved \$1,126,539 for the three months ended March 31, 2003 from the same period in the prior year, due mainly to a \$1,034,410 gain on the sale of the last of the Company's shares of its investment in Immtech International, Inc. In addition, the Company incurred no interest expense in its current third quarter ended March 31, 2003 due to the retirement of its long-term debt in the first quarter of the current year, resulting in a \$60,509 savings from the same period in the prior year.

The higher other income for the three months ended March 31, 2003 more than offset the increase in operating expenses, resulting in a bottom line profit of \$459,684 that was \$694,468 better than the \$234,784 net loss from the fiscal third quarter of the prior year.

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

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2003, the Company had a cash balance of \$5,163,809, an increase of \$1,640,739 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

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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 is expected to improve future cash flows by almost \$150,000 annually, through the elimination of interest expense and excess square footage (see "Forward Looking Statements").

The other significant event favorably impacting cash flows for the nine months ended March 31, 2003 was the sale of all 456,374 shares of the Company's Immtech International, Inc. stock. The sale of these shares resulted in an increase in cash and a realized gain of \$1,290,252 in the current year.

The Company believes all future capital and liquidity requirements will be satisfied by cash generated from operations and its current cash balances. No major capital equipment expenditures are expected for the remainder of calendar year 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 March 31, 2003, 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 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.

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.

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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

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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.

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PART II - OTHER INFORMATION

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).

- (b) Reports on Form 8-K. The Company did not file any reports on Form 8-K during the quarter ended March 31, 2003.

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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: May 14, 2003

BY /s/ Michael J. Sallmann

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

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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 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

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(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

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.

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Date: May 14, 2003

/s/ Emil H. Soika

Emil H. Soika
President and Chief Executive Officer

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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 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

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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: May 14, 2003

/s/ Michael J. Sallman

Michael J. Sallmann
Vice President - Finance and Secretary

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