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CRITICARE SYSTEMS INC /DE/
Form 10-K/A
May 20, 2002

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

FORM 10-K/A

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended June 30, 2001

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 000-16061

Criticare Systems, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

39-1501563

(State or Other Jurisdiction of (I.R.S. Employer Identification No.)
Incorporation or Organization)

20925 Crossroads Circle, Waukesha, Wisconsin 53186

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: 262-798-8282

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---------------------|---|
| NA | NA |

[COVER PAGE 1 OF 2 PAGES.]

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

Voting Common Stock, \$.04 Par Value
(together with associated Preferred Stock Purchase Rights)

(Title of class)

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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 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 the Form 10-K. []

The aggregate market value of the voting common stock held by nonaffiliates of the registrant as of August 31, 2001 was approximately \$34,866,000. Shares of voting common stock held by any executive officer or director of the Registrant and any person who beneficially owns 10% or more of the outstanding voting common stock have been excluded from this computation because such persons may be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

On August 31, 2001, there were outstanding 10,796,224 shares of the registrant's \$.04 par value voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of the Stockholders of the Registrant to be held November 30, 2001 are incorporated by reference into Part III of this report.

[COVER PAGE 2 OF 2 PAGES.]

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Criticare Systems, Inc. (the "Company") is amending Item 8 of Part II of the Company's Annual Report on Form 10-K for the year ended June 30, 2001, as filed with the Securities and Exchange Commission on September 27, 2001 (the "Annual Report"), to reflect a change in Note 11 to the Financial Statements. The Company is also amending Item 14 of Part IV of the Annual Report to replace Exhibit 10.9. Accordingly, Item 8 of Part II and Item 14 of Part IV of the Annual Report are hereby amended in their entirety as follows:

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PART II

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

FINANCIAL STATEMENTS

CRITICARE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2001 AND 2000

ASSETS 2001 2000

CURRENT ASSETS:

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| | | |
|---|--------------|--------------|
| Cash and cash equivalents (Note 1) | \$ 3,362,104 | \$ 114,830 |
| Accounts receivable, less allowance for doubtful accounts of \$1,000,000 and \$1,300,000, respectively | 7,122,464 | 6,782,765 |
| Investments (Notes 1 and 3) | 3,970,454 | 5,704,675 |
| Other receivables | 33,788 | 116,773 |
| Inventories (Notes 1 and 2) | 8,600,413 | 8,178,326 |
| Prepaid expenses | 502,172 | 219,852 |
| | ----- | ----- |
| Total current assets | 23,591,395 | 21,117,221 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 5): | | |
| Land | 925,000 | 925,000 |
| Building | 3,600,000 | 3,600,000 |
| Machinery and equipment | 2,055,518 | 2,009,312 |
| Furniture and fixtures | 837,238 | 763,282 |
| Demonstration and loaner monitors | 1,463,909 | 1,407,587 |
| Production tooling | 3,122,938 | 2,651,145 |
| | ----- | ----- |
| Property, plant and equipment - cost | 12,004,603 | 11,356,326 |
| Less accumulated depreciation | 5,822,133 | 5,367,670 |
| | ----- | ----- |
| Property, plant and equipment - net | 6,182,470 | 5,988,656 |
| OTHER ASSETS (Note 1): | | |
| License rights and patents - net | 97,989 | 104,990 |
| | ----- | ----- |
| Total other assets | 97,989 | 104,990 |
| | ----- | ----- |
| TOTAL | \$29,871,854 | \$27,210,867 |
| | ===== | ===== |

See notes to consolidated financial statements.

| LIABILITIES AND STOCKHOLDERS' EQUITY | 2001 | 2000 |
|--|--------------|--------------|
| | ----- | ----- |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 3,421,776 | \$ 2,635,340 |
| Accrued liabilities: | | |
| Compensation and commissions | 1,187,493 | 1,243,830 |
| Product warranties (Note 1) | 220,000 | 325,000 |
| Accrued taxes other than income | 96,947 | 126,760 |
| Accrued audit and legal fees | 35,900 | 20,000 |
| Other | 547,025 | 428,050 |
| Current maturities of long-term debt (Note 5) | 86,766 | 80,430 |
| | ----- | ----- |
| Total current liabilities | 5,595,907 | 4,859,440 |
| LONG-TERM DEBT, less current maturities (Note 5) | 3,197,126 | 3,283,890 |
| OTHER LONG-TERM OBLIGATIONS (Note 12) | 73,005 | 268,580 |
| CONTINGENCIES (Note 6) | | |
| STOCKHOLDERS' EQUITY (Notes 5 and 7): | | |

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| | | |
|---|--------------|-------------|
| Preferred stock - \$.04 par value, 500,000 shares authorized, no shares issued or outstanding | -- | -- |
| Common stock - \$.04 par value, 15,000,000 shares authorized, 10,796,224 and 8,976,251 shares issued and outstanding, respectively | 431,849 | 359,05 |
| Additional paid-in capital | 22,494,548 | 18,478,04 |
| Common stock held in treasury (64,134 and 81,122 shares, respectively). | (119,467) | (151,11 |
| Retained earnings (accumulated deficit) | (5,771,568) | (5,591,70 |
| Accumulated comprehensive income. | 3,970,454 | 5,704,67 |
| Total stockholders' equity. | 21,005,816 | 18,798,95 |
| TOTAL | \$29,871,854 | \$27,210,86 |

See notes to consolidated financial statements.

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CRITICARE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 2001, 2000 AND 1999

| | 2001 | 2000 | 1999 |
|--|--------------|--------------|----------------|
| | ----- | ----- | ----- |
| NET SALES (NOTE 9) | \$27,736,304 | \$27,154,236 | \$28,512,507 |
| COST OF GOODS SOLD | 16,469,119 | 16,462,477 | 15,528,314 |
| GROSS PROFIT | 11,267,185 | 10,691,759 | 12,984,193 |
| OPERATING EXPENSES: | | | |
| Marketing (Note 1) | 6,367,395 | 8,014,129 | 8,941,036 |
| Research, development and engineering (Note 6) | 2,446,907 | 2,861,733 | 2,963,134 |
| Administrative (Note 6). | 2,538,938 | 2,333,445 | 4,157,811 |
| Severance pay (Note 12). | -- | -- | 810,000 |
| Total. | 11,353,240 | 13,209,307 | 16,871,981 |
| LOSS FROM OPERATIONS | (86,055) | (2,517,548) | (3,887,788) |
| OTHER INCOME (EXPENSE): | | | |
| Interest expense (Note 5). | (253,150) | (259,280) | (427,008) |
| Interest income. | 157,782 | 90,440 | 82,094 |
| Equity in loss of investments (Notes 1 and 3). | -- | -- | (150,000) |
| Gain on sale of stock (Note 3) | -- | 2,500,000 | -- |
| Other income/(expense) | 3,191 | -- | (5,469) |
| Total. | (92,177) | 2,331,160 | (500,383) |
| LOSS BEFORE INCOME TAXES | (178,232) | (186,388) | (4,388,171) |
| INCOME TAX PROVISION (NOTES 1 AND 4) | -- | -- | -- |
| NET LOSS | \$ (178,232) | \$ (186,388) | \$ (4,388,171) |

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NET LOSS PER COMMON SHARE:

| | | | | | | |
|------------------|----|--------|----|--------|----|--------|
| Basic. | \$ | (0.02) | \$ | (0.02) | \$ | (0.51) |
| Diluted. | \$ | (0.02) | \$ | (0.02) | \$ | (0.51) |

WEIGHTED AVERAGE NUMBER OF COMMON

SHARES OUTSTANDING (NOTE 7):

| | | | |
|------------------|------------|-----------|-----------|
| Basic. | 10,171,394 | 8,694,918 | 8,581,863 |
| Diluted. | 10,171,394 | 8,694,918 | 8,581,863 |

See notes to consolidated financial statements.

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CRITICARE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2001, 2000 AND 1999

| | Common Shares | Stock Amount | Additional Paid-In Capital | Common Stock Treasury Shares | Cost | |
|---|----------------------------------|-----------------|----------------------------------|------------------------------------|-------------|--------|
| BALANCE, JUNE 30, 1998. | 8,351,151 | \$334,046 | \$17,964,250 | | | \$ (1) |
| Net loss. | | | | | | (4) |
| Comprehensive income/(loss) | | | | | | |
| Issuance of common stock for patented technology | 350,000 | 14,000 | (14,000) | | | |
| Exercise of options and warrants. | 5,000 | 200 | 10,113 | | | |
| Common stock repurchased. | | | | 103,840 | (193,430) | |
| BALANCE, JUNE 30, 1999. | 8,706,151 | 348,246 | 17,960,363 | 103,840 | (193,430) | (5) |
| Net loss. | | | | | | |
| Unrealized gain on investment | | | | | | |
| Comprehensive income/(loss) | | | | | | |
| Common stock issued in settlement of lawsuit. | 30,000 | 1,200 | 68,175 | | | |
| Exercise of options | 240,100 | 9,604 | 448,746 | | | |
| Employee common stock purchased from treasury | | | 756 | (22,718) | 42,319 | |
| BALANCE, JUNE 30, 2000. | 8,976,251 | 359,050 | 18,478,040 | 81,122 | (151,111) | (5) |
| Net loss. | | | | | | |
| Unrealized (loss) on investment | | | | | | |
| Comprehensive income/(loss) | | | | | | |
| Common stock issued | 1,801,273 | 72,051 | 3,977,063 | | | |
| Exercise of options | 18,700 | 748 | 2,273 | | | |
| Employee common stock purchased from treasury | | | 37,172 | (16,988) | 31,644 | |
| BALANCE, JUNE 30, 2001. | 10,796,224 | \$431,849 | \$22,494,548 | 64,134 | \$(119,467) | \$(5) |
| | Total Stockholders' Equity | | | | | |

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| | |
|---|------------------|
| BALANCE, JUNE 30, 1998. | \$17,282,997 |
| Net loss. | (4,388,171) |
| Comprehensive income/(loss) | (4,388,171) |
| Issuance of common stock for patented technology | - |
| Exercise of options and warrants. | 10,313 |
| Common stock repurchased. | (193,430) |
| BALANCE, JUNE 30, 1999. | 12,711,709 |
| Net loss. | (186,388) |
| Unrealized gain on investment | 5,704,675 |
| Comprehensive income/loss | 5,518,287 |
| Common stock issued | 69,375 |
| Exercise of options | 458,350 |
| Employee common stock purchased from treasury | 41,231 |
| BALANCE, JUNE 30, 2000. | 18,798,952 |
| Net loss. | (178,232) |
| Unrealized (loss) on investment | (1,734,221) |
| Comprehensive income/loss | (1,912,453) |
| Common stock issued | 4,049,114 |
| Exercise of options | 3,021 |
| Employee common stock purchased from treasury | 67,182 |
| BALANCE, JUNE 30, 2001. | \$21,005,816 |

See notes to consolidated financial statements.

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CRITICARE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2001, 2000 AND 1999

| | 2001 | 2000 | 1999 |
|--|--------------|--------------|----------------|
| | ----- | ----- | ----- |
| OPERATING ACTIVITIES: | | | |
| Net loss | \$ (178,232) | \$ (186,388) | \$ (4,388,171) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | | |
| Depreciation | 742,931 | 871,510 | 1,000,000 |
| Amortization | 7,001 | 7,001 | 7,001 |
| Provision for doubtful accounts. | (300,000) | 925,000 | (300,000) |
| Gain on sale of Immtech stock. | -- | (2,500,000) | -- |
| Litigation settled with common stock | -- | 69,375 | -- |
| Changes in assets and liabilities: | | | |
| Accounts receivable. | (39,699) | (1,349,278) | (39,699) |
| Other receivables. | 82,985 | (33,667) | 82,985 |
| Inventories. | (670,510) | 341,955 | (670,510) |
| Prepaid expenses | (282,320) | (27,562) | (282,320) |
| Accounts payable | 786,432 | (442,676) | 786,432 |
| Accrued liabilities. | (251,877) | (2,401,762) | (251,877) |
| | ----- | ----- | ----- |

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| | | | |
|--|--------------|-------------|------|
| Net cash (used in) provided by operating activities. | (103,289) | (4,726,492) | |
| INVESTING ACTIVITIES: | | | |
| Purchases of property, plant and equipment, net. | (688,322) | (595,412) | (|
| Proceeds from sale of Immtech stock. | -- | 2,500,000 | |
| | ----- | ----- | |
| Net cash (used in) provided by investing activities. | (688,322) | 1,904,588 | (|
| FINANCING ACTIVITIES: | | | |
| Net proceeds from mortgage refinancing | -- | -- | |
| Repurchase of Company stock. | -- | -- | (|
| Principal payments on long-term debt | (80,432) | (73,925) | |
| Proceeds from issuance of common stock | 4,119,317 | 499,581 | |
| | ----- | ----- | |
| Net cash provided by (used in) financing activities. | 4,038,885 | 425,656 | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,247,274 | (2,396,248) | (|
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 114,830 | 2,511,078 | 2, |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 3,362,104 | \$ 114,830 | \$2, |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | |
| Cash paid for: | | | |
| Income taxes paid-net. | \$ 16,639 | \$ 7,535 | \$ |
| Interest | 253,653 | 259,590 | |
| Noncash investing and financing activities: | | | |
| Litigation settled with common stock | -- | 69,375 | |
| Cost of fixed asset disposals. | -- | 201,072 | |
| Unrealized (loss)/gain on investment in Immtech. | (1,734,221) | 5,704,675 | |

See notes to consolidated financial statements.

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NOTES TO FINANCIAL STATEMENTS

CRITICARE SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001, 2000 AND 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS - Criticare Systems Inc. designs, manufactures and markets patient monitoring equipment and related accessories to the health care community worldwide and is headquartered in Waukesha, Wisconsin. The Company sells domestically primarily to oral and stand-alone general surgery centers and hospitals through regional sales managers and a dealer network. Internationally, the Company sells mainly to hospitals through country managers and a worldwide dealer network.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of Criticare Systems, Inc. (the "Company") and its wholly owned subsidiaries: Criticare International GmbH Marketing Services ("Criticare International"), CSI Trading, Inc. ("CSI Trading"), Criticare Service GmbH, Criticare Biomedical, Inc. ("Criticare Biomedical"), Sleep Care, Inc. ("Sleep Care"), Criticare (FSC), Inc. and CSI International Corp. (DISC). CSI Trading was incorporated in November 1996 to assist with European marketing activities and includes a branch sales office in India. All significant intercompany accounts and transactions have been eliminated.

CASH EQUIVALENTS - The Company considers all investments with purchased

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maturities of less than three months to be cash equivalents.

INVENTORIES - Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out method.

INVESTMENTS - In fiscal 2000, the Company ceased accounting for its investment in Immtech International, Inc ("Immtech") under the equity method and recorded the asset on the balance sheet at its fair market value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (see Note 3).

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment is recorded at cost. Each member of the Company's sales force is provided with demonstration monitors to assist them in their sales efforts. Also, the Company has loaner monitors which are used to temporarily replace a customer's unit when it is being repaired or upgraded. Depreciation is provided over the estimated useful lives of the assets. The building is being depreciated over 40 years, and the remaining assets are being depreciated over three to seven years, using primarily the straight-line method.

LICENSE RIGHTS AND PATENTS - License rights and patents are amortized over the estimated useful lives of the related agreements using primarily the straight-line method. Approximately \$7,000 of amortization was charged to operations in each of the fiscal years ended June 30, 2001, 2000 and 1999. Accumulated amortization approximated \$99,000 and \$92,000 at June 30, 2001 and 2000, respectively.

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REVENUE RECOGNITION - Revenues and the costs of products sold are recognized as the related products are shipped or installed, if there are significant installation costs. This revenue recognition policy is utilized for shipment of product to customers including both distributors and end-users.

PRODUCT WARRANTIES - Estimated costs for product warranties are accrued for and charged to operations as the related products are shipped.

MARKETING EXPENSES - Marketing expenses include all of the Company's sales related costs. In fiscal 2001, recoveries of bad debts expensed in prior years more than offset additional provisions expensed in the current year, resulting in a net credit of bad debt expense of \$(25,757). The amount incurred in fiscal 2000 includes a \$900,000 charge to bad debt expense related to the accounts receivable balances of certain international customers. Bad debt expense totaled \$1,160,614 and \$380,004 for the years ended June 30, 2000 and 1999, respectively.

RESEARCH AND DEVELOPMENT EXPENSES - Research and development costs are charged to operations as incurred. Such expenses approximated \$2,325,000, \$2,696,000 and \$2,798,000 in 2001, 2000 and 1999, respectively.

INCOME TAXES - The Company accounts for income taxes using an asset and liability approach. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

NET INCOME (LOSS) PER COMMON SHARE - Basic income (loss) per share is computed using the weighted average number of common shares outstanding during the periods. Diluted income per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the

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periods. The basic and diluted weighted average number of common shares outstanding in the financial statements are the same because including a diluted calculation in a loss position would produce an anti-dilutive per share amount. The number of diluted weighted average common shares outstanding would be higher by 370,260 shares in 2001 and 236,024 shares in 2000 without this anti-dilutive impact.

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FAIR VALUE OF FINANCIAL STATEMENTS - The Company's financial instruments under SFAS No. 107 "Disclosure About Fair Value of Financial Instruments," includes cash, accounts receivable, accounts payable, borrowings under line of credit facility and long-term debt. The Company believes that the carrying amounts of these accounts are a reasonable estimate of their fair value because of the short-term nature of such instruments or, in the case of long-term debt because of interest rates available to the Company for similar obligations.

COMPREHENSIVE INCOME - In 1999, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income consists of net income, foreign currency translation adjustments and unrealized gains on investments, and is presented in the Consolidated Statement of Stockholders' Equity.

APPROVED ACCOUNTING STANDARDS - In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, "Business Combinations" (SFAS 141), and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purpose of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The Company does not have any goodwill recorded as an asset as of June 30, 2001 and has only a small investment in intangible assets at June 30, 2001. Therefore, the Company does not expect adoption of SFAS 141 and 142 to have a material effect on the Company's financial statements.

Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No.133) issued by the FASB is effective for financial statements with fiscal quarters of fiscal years beginning after June 15, 2000. SFAS 133 requires companies to recognize all

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derivative contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

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Historically, the Company has not entered into derivative contracts either to hedge existing risks or for speculative purposes. Accordingly, the Company does not expect adoption of the new standard to affect its financial statements.

In March 2000, the FASB issued FASB interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44") which is effective July 1, 2000. This interpretation clarifies the application of APB Opinion 25 for certain issues related to stock issued to employees. The Company believes its existing stock based compensation policies and procedures are in compliance with FIN 44 and, therefore, that the adoption of FIN 44 will not have a material effect on the Company's financial statements.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

RECLASSIFICATIONS - Certain amounts from the fiscal 2000 financial statements have been reclassified to conform to the fiscal 2001 presentation.

2. INVENTORIES

Inventories consist of the following as of June 30:

| | 2001 | 2000 |
|--------------------------------|-------------|-------------|
| Component parts | \$3,784,491 | \$3,721,474 |
| Work in process | 1,372,587 | 1,169,609 |
| Finished units | 3,768,335 | 3,687,243 |
| | ----- | ----- |
| Total inventories | 8,925,413 | 8,578,326 |
| Less: reserve for obsolescence | 325,000 | 400,000 |
| | ----- | ----- |
| Net inventory | \$8,600,413 | \$8,178,326 |

3. INVESTMENTS

IMMTECH INTERNATIONAL, INC. - The Company owns common stock of Immtech International, Inc. ("Immtech"). Immtech is a biopharmaceutical company focusing on the discovery and commercialization of therapeutics for treatment of patients afflicted with opportunistic infectious diseases, cancer or comprised immune systems. Immtech has two independent programs for developing drugs: one based on a technology for the design of a class of pharmaceutical compounds referred to as dications. The second is based on developing a series of biological proteins that work in conjunction with the immune system. Immtech

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has no products currently for sale, and none are expected to be commercially available for several years. Immtech has a March 31 fiscal year end.

During the first and second quarters of fiscal 2000, the Company sold a portion of its Immtech stock in a Private Placement. The proceeds from this sale were \$2,500,000. As a result of this sale, the Company owns less than 20% of Immtech's issued and outstanding common stock as of June 30, 2000. Therefore, beginning in fiscal 2000, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company ceased accounting for the Immtech investment under the equity method and recorded the

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asset on the balance sheet at the fair market value of \$5,704,675. An unrealized gain was also recorded as a component of stockholders' equity. The Company held 456,374 shares of Immtech common stock, which was trading at \$8.70 and \$12.50 per share, on June 30, 2001 and 2000, respectively.

The following is a summary of the Company's investment in and advances to Immtech as of June 30, 1999:

| | 1999 |
|-----------------------------------|--------------|
| Investment in Immtech | \$ 2,736,000 |
| Advances to Immtech | 863,940 |
| | ----- |
| Total | 3,599,940 |
| Less investment losses recognized | (3,599,940) |
| | ----- |
| Net investment. | \$ 0 |

During July 1998, the Company purchased certain intangible assets and an additional 172,414 shares of Immtech stock for \$150,000. These intangibles and shares of stock were subsequently sold to the former President and Chief Executive Officer of the Company as part of a severance agreement for \$150,000 (see Note 12). At the time of this transaction, the shares of Immtech stock were carried at zero value under the equity method of accounting.

The Company has recognized investment losses related to the investment in Immtech of \$150,000 in 1999.

During April 1999, Immtech completed an Initial Public Offering ("IPO") of its stock. As part of this IPO, the Company was required to sign a lock-up agreement by which it was agreed that no shares owned by the Company could be sold in the public market until the Immtech stock traded at \$20 (200% of its initial IPO price of \$10) for 20 consecutive trading days and one year had passed from the date of the IPO. As of June 30, 2000, these lock up provisions have been satisfied.

The following is summarized financial information for Immtech at June 30, 1999 and for the twelve months then ended.

| | 1999 |
|-----------------------------|--------------|
| Current assets. | \$ 8,541,000 |
| Noncurrent assets | 68,000 |

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| | |
|---|-------------|
| Current liabilities | 253,000 |
| Noncurrent liabilities. | -- |
| Redeemable preferred stock. | -- |
| Common stockholders' equity (deficit) | 8,356,000 |
| Revenues. | 136,000 |
| Net loss. | (8,341,000) |
| Net loss attributable to common stockholders. | (4,657,000) |

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4. INCOME TAXES

The Company accounts for income taxes using an asset and liability approach which generally requires the recognition of deferred income tax assets and liabilities based on the expected future income tax consequences of events that have previously been recognized in the Company's financial statements or tax returns. In addition, a valuation allowance is recognized if it is more likely than not that some or all of the deferred income tax asset will not be realized. A valuation allowance is used to offset the related net deferred income tax assets due to uncertainties of realizing the benefits of certain net operating loss and tax credit carryforwards.

Significant components of the Company's deferred income tax assets and deferred income tax liabilities are as follows:

| | JUNE 30, 2001 | JUNE 30, 2000 | JUNE 30, 1999 |
|---|------------------|------------------|------------------|
| Deferred income tax assets: | | | |
| Accounts receivable and sales allowances. | \$ 415,000 | \$ 533,000 | \$ 170,000 |
| Inventory allowances. | 164,000 | 191,000 | 254,000 |
| Product warranties. | 86,000 | 128,000 | 128,000 |
| Other accrued liabilities | 210,000 | 246,000 | 392,000 |
| Severance pay accrual | 52,000 | 145,000 | 279,000 |
| Lawsuit settlement. | -- | -- | 626,000 |
| Federal net operating loss carryforwards. | 3,665,000 | 3,320,000 | 2,014,000 |
| State net operating loss carryforwards. | 467,000 | 483,000 | 291,000 |
| Federal tax credit carryforwards. | 152,000 | 152,000 | 152,000 |
| Investment losses not deducted. | 709,000 | 709,000 | 1,532,000 |
| Total deferred income tax assets. | 5,920,000 | 5,907,000 | 5,838,000 |
| Deferred income tax liabilities: | | | |
| Excess of tax over book depreciation and amortization | (625,000) | (616,000) | (620,000) |
| Prepaid expenses. | (28,000) | (13,000) | (7,000) |
| Unrealized gain on investments. | (1,557,000) | (2,237,000) | -- |
| Total deferred income tax liabilities | (2,210,000) | (2,866,000) | (627,000) |
| Valuation allowance | (3,710,000) | (3,041,000) | (5,211,000) |
| Net deferred income taxes recognized in the consolidated balance sheets | \$ 0 | \$ 0 | \$ 0 |

At June 30, 2001, the Company had federal net operating loss carryforwards of approximately \$10,779,000 which expire in 2008 through 2021. At June 30, 2001, the Company had available for federal income tax purposes approximately

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\$41,000 of alternative minimum tax credit carryforwards which carry forward indefinitely and approximately \$111,000 of tax credit carryforwards which expire in the years 2007 through 2009. The Company also has approximately \$9,339,000 of state net operating loss carryforwards, which expire in 2003 through 2016, available to offset certain future state taxable income.

The income tax provision consists of the following:

| | 2001 | 2000 | 1999 |
|----------------------------|------|------|------|
| Current | | | |
| Federal | \$ 0 | \$ 0 | \$ 0 |
| State | 0 | 0 | 0 |
| Total income tax provision | \$ 0 | \$ 0 | \$ 0 |

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A reconciliation of the provision for income taxes (benefits) at the federal statutory income tax rate to the effective income tax rate follows:

| | 2001 | 2000 | 1999 |
|--|---------|---------|---------|
| Federal statutory income tax rate | (34.0)% | (34.0)% | (34.0)% |
| Losses for which no benefit was provided . . . | 17.5 | 35.3 | 29.3 |
| Non-deductible losses of subsidiaries | 15.6 | 27.6 | 3.2 |
| Other-net (principally stock options in 2000) | 0.9 | (28.9) | 1.5 |
| | ----- | ----- | ----- |
| Effective income tax rate | 0% | 0% | 0% |

5. LINE OF CREDIT FACILITY AND LONG-TERM DEBT

| | 2001 | 2000 |
|---|-------------|-------------|
| Long-term debt consists of the following: | | |
| Mortgage note, 7.5% due in monthly installments of \$27,793 with a final payment of \$3,048,253 due April 1, 2004, collateralized by real estate with a carrying value of approximately \$3,754,000 at June 30, 2001. | \$3,283,892 | \$3,364,324 |
| Less current maturities | 86,766 | 80,432 |
| | ----- | ----- |
| Long-term debt | \$3,197,126 | \$3,283,892 |

Aggregate annual principal payments required under terms of the long-term debt agreement are as follows:

| YEARS ENDING JUNE 30, | PRINCIPAL PAYMENTS |
|-----------------------|--------------------|
| 2002 | \$ 86,766 |
| 2003 | 93,600 |

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| | |
|-----------------|--------------|
| 2004. | 3,103,526 |
| 2005. | 0 |
| 2006. | 0 |
| | ----- |
| Total | \$ 3,283,892 |

At June 30, 2001, the Company had a \$4,000,000 demand line of credit facility with a commercial bank to meet its short-term borrowing needs. Borrowings against the line were payable on demand with interest payable monthly at the bank's reference rate, plus .25% (7.0% as of June 30, 2001). As of June 30, 2001, there were no borrowings against the line. Borrowings under the line of credit facility are collateralized by substantially all assets of the Company. The credit facility has covenants which require minimum levels of tangible net worth and income levels. The Company was not in compliance with these covenants at June 30, 2001. This non-compliance was waived by the lending institution.

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In March 1999, the Company refinanced its mortgage note on the Company's office and manufacturing facility. The Company incurred a prepayment penalty of approximately \$120,000, which was recorded as interest expense.

6. CONTINGENCIES

From time to time, various lawsuits arise out of the normal course of business. These proceedings are handled by outside counsel. Currently management is not aware of any claim or action pending against the Company that would have a material adverse effect on the Company.

The Company received two grants from the State of Wisconsin for research and development of certain products. The grants were to be repaid only upon successful completion and marketing of the related product. Repayment of these grants was to be made on a sales by unit basis. Repayments approximated \$182,000 in 1999 and constituted full repayment of one of these grants. The repayments were charged to expense as the related products were sold. Since the second grant did not result in the successful completion and marketing of a product, the Company did not have to repay the grant.

7. STOCKHOLDERS' EQUITY

STOCK OPTIONS - In December 1992, the Board of Directors approved a new Employee Stock Option Plan and Non-Employee Stock Option Plan. No new stock options can be granted under the Employee Stock Option Plan and Non-Employee Stock Option Plan which existed prior to the approval of the new plans. The Board of Directors has authorized in connection with these new plans the issuance of 2,220,000 reserved shares of common stock of which 137,930 reserved shares of common stock remain available for future issuance under the stock option plans at June 30, 2001. The Board of Directors increased the number of reserved shares for issuance under the Plans from 1,720,000 to 2,220,000 during 2001. The activity during 1999, 2000 and 2001 for the above plans are summarized as follows:

| | NUMBER OF SHARES | STOCK OPTIONS PRICE RANGE | WEIGHTED AVG. EXERCISE PRICE |
|---------------------------------------|---------------------|------------------------------|---------------------------------|
| Outstanding at July 1, 1998 | 839,700 | 1.88-3.63 | 2.50 |
| Granted | 993,700 | 1.50-1.88 | 1.74 |

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| | | | |
|---------------------------------------|-----------|-----------|------|
| Cancelled | (636,800) | 1.69-3.00 | 2.06 |
| Exercised | (5,000) | 2.06 | 2.06 |
| <hr/> | | | |
| Outstanding at June 30, 1999. | 1,191,600 | 1.50-3.00 | 1.83 |
| Granted | 489,100 | 2.00-2.25 | 2.24 |
| Cancelled | (287,700) | 1.63-3.63 | 1.99 |
| Exercised | (240,100) | 1.50-2.75 | 1.91 |
| <hr/> | | | |
| Outstanding at June 30, 2000. | 1,152,900 | 1.50-2.75 | 1.96 |
| Granted | 780,520 | 1.88-3.69 | 2.47 |
| Cancelled | (279,100) | 1.88-2.75 | 2.01 |
| Exercised | (18,700) | 1.63-2.97 | 2.03 |
| <hr/> | | | |
| Outstanding at June 30, 2001. | 1,635,620 | 1.50-3.69 | 2.19 |
| Exercisable at June 30, 2001. | 735,120 | 1.50-3.69 | 2.11 |

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The following table summarizes information about stock options outstanding as of June 30, 2001:

| Range of Exercise Prices | OPTIONS OUTSTANDING | | | Options Exercisable at June 30, 2001 |
|--------------------------|-------------------------------------|---|---------------------------------|--------------------------------------|
| | Shares Outstanding at June 30, 2001 | Weighted Average Remaining Contractual Life-Years | Weighted Average Exercise Price | |
| 1.50-1.875 | 794,000 | 2.99 | \$ 1.75 | 344,000 |
| 2.00-3.69. | 841,620 | 3.10 | 2.61 | 391,120 |
| 1.50-3.69. | 1,635,620 | 3.05 | 2.19 | 735,120 |

Outstanding options have fixed terms and are exercisable over a period determined by the Compensation Committee of the Company's Board of Directors but no longer than five years after the date of grant.

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," but applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its plans. If the Company had elected to recognize compensation cost for the options granted during the years ended June 30, 2001, 2000 and 1999, consistent with the method prescribed by SFAS No. 123, net loss and net loss per share would have been changed to the pro forma amounts indicated below:

| | YEARS ENDED JUNE 30, | | |
|---|----------------------|--------------|----------------|
| | 2001 | 2000 | 1999 |
| Net income (loss)-as reported | \$ (178,232) | \$ (186,388) | \$ (4,388,171) |
| Net income (loss)-pro forma | \$ (507,678) | \$ (365,626) | \$ (4,555,200) |
| Net income (loss) per common share-as reported. | \$ (0.02) | \$ (0.02) | \$ (0.51) |
| Net income (loss) per common share-pro forma. . | \$ (0.05) | \$ (0.04) | \$ (0.53) |
| Assumptions used: | | | |
| Expected volatility | 37.5% | 23% | 15% |

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| | | | |
|---|----|----|----|
| Risk-free interest rate | 5% | 6% | 5% |
| Expected option life (in years) | 4 | 4 | 3 |

| | | | | | | |
|---|----|------|----|------|----|------|
| Weighted average fair market value of options granted during the fiscal year ended June 30 | \$ | 0.61 | \$ | 0.38 | \$ | 0.23 |
|---|----|------|----|------|----|------|

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

STOCK WARRANTS - In September 1995, the Company executed a warrant agreement with a consultant. The warrant agreement provided for the issuance of warrants to purchase up to 150,000 shares of the common stock of the Company, exercisable at a price of \$2.00 per share. The warrant was exercisable as to 37,500 shares upon execution of the agreement and the warrants to purchase the remaining 112,500 shares were to become exercisable if certain performance parameters were achieved by September 1996. Such parameters were not met as of such date. In January 1997, the agreement was extended and the parameters were changed. By June 30, 1997, warrants to purchase the remaining 112,500 shares of

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common stock at a price of \$2.00 per share became exercisable. The warrant holder exercised rights and purchased 41,000 shares of common stock at \$2.00 per share during the year ended June 30, 1998. The warrants were exercised to purchase 15,000 shares of common stock at \$2.00 per share during the year ended June 30, 2001, and the remainder of such warrants expired.

In February 1998, the Company executed a similar warrant agreement with the consultant. The warrant agreement provides for the issuance of warrants to purchase up to 150,000 shares of common stock at a price of \$3.00 per share. The warrant is exercisable as to 30,000 shares upon execution of the agreement and the warrants to purchase the remaining 120,000 shares will be exercisable if certain performance parameters are achieved by February 1999. No such parameters were achieved. During the year ended June 30, 1998, the Company recognized \$23,065 of expense related to the value of the services performed under the agreement. As of June 30, 2001, 30,000 warrants were exercisable. Such warrants expire in February 2003.

In December 2000, the Company executed another warrant agreement with the consultant. The warrant agreement provides for the issuance of warrants to purchase up to 70,000 shares of common stock at a price of \$1.875 per share. The warrant vests over a four year period in four equal increments each year on the anniversary date of the warrant. The warrant terminates as to any shares that are unvested at the time the consultant ceases to provide consulting services to the Company. As of June 30, 2001, none of these warrants were exercisable. Such warrants expire in December 2005.

COMMITMENT TO ISSUE SHARES OF COMMON STOCK - In April 1998, the Company agreed to and accepted the patent rights assigned to them by a third party with respect to certain technology related to the transmission of clinical data. In consideration for the patent, the Company has agreed to provide the third party with 400,000 shares of common stock payable over a four-year time period with additional consideration of up to 112,000 shares contingent upon the achievement of certain sales levels. The Company recorded a charge to operations of \$900,000 in fiscal 1998 with respect to the value of the in-process technology which was expensed as research and development costs. The 400,000 shares to be issued have been considered to be outstanding shares for purposes of computing basic and diluted income (loss) per common share in 1998. During 1999, the

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Company renegotiated the agreement and issued the third party 350,000 shares instead of the 400,000 shares payable over four years and the 112,000 contingent shares.

PREFERRED STOCK - The Company's Board of Directors has the authority to determine the relative rights and preferences of any series it may establish with respect to the 500,000 shares of \$.04 par value authorized preferred shares. No preferred stock is issued or outstanding.

On March 27, 1997, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock of the Company. The dividend was made on April 24, 1997 to the stockholders of record on that date to purchase Preferred Stock ("Preferred") upon the occurrence of certain events. The Rights will be exercisable the tenth business day after a person or group acquires 20% of the Company's common stock, or makes an offer to acquire 30% or more of the Company's common stock. When exercisable, each right entitles the holder to purchase for \$25, subject to adjustment, one-hundredth of a share of Preferred for each share of common stock owned. Each share of Preferred will be entitled to a minimum preferential quarterly dividend of \$25 per share, but not less than an aggregate dividend of 100 times the common stock dividend. Each share will have 100 votes, voting together with the common stock. In the event of any merger, each share of Preferred will be entitled to receive 100 times the amount received per share of common stock. The Rights expire on April 1, 2007.

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8. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan which covers substantially all employees. Company contributions to the plan are discretionary and determined annually by the Company's Board of Directors. The Company's contributions were approximately \$87,000, \$77,000, and \$84,000 in 2001, 2000 and 1999, respectively.

9. BUSINESS AND CREDIT CONCENTRATIONS

The Company is a manufacturer of medical monitors and telemetry products whose customers include hospitals and alternative health care sites throughout the world. Although the Company's products are sold primarily to health care providers, concentrations of credit risk with respect to trade accounts receivable are limited due to the Company's large number of customers and their geographic dispersion. The Company currently coordinates substantially all international sales and distribution activities through its headquarters in Waukesha, Wisconsin. Such activities were previously provided by the Company with the assistance of Criticare International. Identifiable assets located outside of the United States are insignificant in relation to the Company's total assets. Net export sales by geographic area are as follows:

| | 2001 | 2000 | 1999 |
|--------------------------------------|--------------|--------------|--------------|
| Europe and Middle East | \$ 6,833,000 | \$ 5,437,000 | \$ 4,635,000 |
| Pacific Rim | 2,313,000 | 2,662,000 | 2,243,000 |
| Canada and Central and South America | 2,217,000 | 3,035,000 | 3,634,000 |
| | ----- | ----- | ----- |
| Export net sales | \$11,363,000 | \$11,134,000 | \$10,512,000 |
| U.S. net sales | 16,373,000 | 16,020,000 | 18,001,000 |
| | ----- | ----- | ----- |
| Total net sales | 27,736,000 | 27,154,000 | 28,513,000 |

Note: Sales in Europe and the Middle East have been combined due to joint sales

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responsibility in these areas. No country made up more than 10% of the Company's total sales.

10. OTHER BUSINESS CONCENTRATIONS

During 1999, the Company entered into an OEM agreement with a customer. Sales to this customer approximated \$3,383,000, \$2,031,000, and \$4,360,000 in fiscal 2001, 2000, and 1999, respectively. These sales represented approximately 12%, 8%, and 15% of the Company's total sales, respectively. This customer had a receivable balance of \$630,716, \$935,520, and \$448,546 on June 30, 2001, 2000, and 1999, respectively, which represented 9%, 14%, and 7% of the Company's total receivables as of these dates.

The Company also has a supplier that it made purchases from totaling approximately \$4,461,000, \$3,358,000, and \$3,087,000 in fiscal 2001, 2000, and 1999, respectively. These purchases represent approximately 19%, 16%, and 16% of the Company's total purchases, respectively. The Company had a payable balance owed to this vendor of \$144,131, \$220,999, and \$122,603 on June 30, 2001, 2000, and 1999, respectively, which represents 4%, 8%, and 4% of the Company's total payables as of these dates.

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11. COMMITMENTS

The Company leases certain operating equipment under various operating leases for varying periods through fiscal 2006. Rent expense was \$165,361 in 2001 and \$207,553 in 2000.

The future minimum rental commitments under these leases are as follows:

| | Year ended June 30, |
|------------|---------------------|
| 2002 | \$91,222 |
| 2003 | 35,084 |
| 2004 | 22,008 |
| 2005 | 18,831 |
| Thereafter | 15,693 |
| | ----- |
| Total | \$182,838 |

During fiscal 2001 the Company entered into supply partnership agreements with two offshore contract manufacturing firms that exclusively manufacture medical devices in a regulated environment. These two firms will manufacture specific products designated by the Company in accordance with formal purchase orders. The initial term of the agreements is for a period of three years and is automatically extended for additional periods of two years each, unless either party gives written notice at least sixty days prior to the end of the initial term or the then current extension term. To ensure an adequate supply of products manufactured by these companies is maintained, the agreements require that these firms keep on hand in their finished goods inventories one full month of supply of all products under current purchase orders. At June 30, 2001, a one month supply of product maintained at these two firms would total approximately \$475,000. In the event the Company would cancel a purchase order under either of these agreements, the Company would be required to purchase at cost all raw materials, work-in-progress and finished goods inventories for that purchase order. In addition, any property or equipment that these firms purchased

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specifically for the production of the Company's products would be purchased at mutually agreed upon prices. There have not been any purchase order cancellations under these agreements.

12. SEVERANCE PAY

During November 1998, the two co-founders of the Company resigned from their positions. The Company has provided each of these individuals with a severance agreement, which includes a portion of their salary and fringe benefits for a period which approximates three years. The salary portion of the severance expires on November 30, 2001 and the fringe benefit portion expires on September 30, 2001, with the exception of health and dental benefits, which continue until age 65 or comparable coverage is available through another employer.

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INDEPENDENT AUDITORS' REPORT

To the Stockholders and Directors of Criticare Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Criticare Systems, Inc. and subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2001. 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 generally accepted auditing standards. 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Criticare Systems, Inc. and subsidiaries at June 30, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001, in conformity with generally accepted accounting principles.

/s/ BDO Seidman, LLP
Milwaukee, Wisconsin
August 21, 2001

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QUARTERLY RESULTS

The following table contains quarterly information, which includes all adjustments, consisting only of normal recurring adjustments, that the Company considers necessary for a fair presentation. The Company recorded a gain of \$2,500,000 in the quarter ended September 30, 1999 related to the sale of Immtech stock. This item was an unusual, nonrecurring adjustment.

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| | QUARTERS ENDED | | | | | | |
|--|---------------------------------------|-------------------|------------------|-------------------|------------------|-------------------|----|
| | JUNE 30, 2001 | MARCH 31, 2001 | DEC. 31, 2000 | SEPT. 30, 2000 | JUNE 30, 2000 | MARCH 31, 2000 | |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | | | |
| Net sales | \$ 7,678 | \$ 7,264 | \$ 6,564 | \$ 6,230 | \$ 7,519 | \$ 6,131 | \$ |
| Gross profit. | 3,252 | 2,923 | 2,581 | 2,511 | 2,326 | 2,235 | |
| (Loss) income from operations. | (149) | 37 | 134 | (108) | (1,317) | (1,143) | |
| Net (loss) income | (161) | 44 | 106 | (166) | (1,367) | (1,197) | |
| Net (loss) income per common share-Basic | (0.01) | 0.00 | 0.01 | (0.02) | (0.16) | (0.14) | |
| -Diluted | (0.01) | 0.00 | 0.01 | (0.02) | (0.16) | (0.14) | |

The Company typically receives a substantial volume of its quarterly sales orders at or near the end of each quarter. In anticipation of meeting this expected demand, the Company usually builds a significant inventory of finished products throughout each quarter. If the expected volume of sales orders is not received during the quarter, or is received too late to allow the Company to ship the products ordered during the quarter, the Company's quarterly results and stock of finished inventory can be significantly affected.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this report:

1. Financial Statements. The following consolidated financial statements of the Company are included in Item 8 of this report.

Consolidated Balance Sheets - as of June 30, 2001 and 2000.

Consolidated Statements of Operations - for the years ended June 30, 2001, 2000 and 1999.

Consolidated Statements of Stockholders' Equity - for the years ended June 30, 2001, 2000 and 1999.

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Consolidated Statements of Cash Flows - for the years ended June 30, 2001, 2000 and 1999.

Notes to consolidated financial statements.

2. Financial Statement Schedules:

Independent Auditors' Report.

The Valuation and Qualifying Accounts and Reserves Financial Statement Schedule for the years ending June 30, 2001, 2000 and 1999 has been previously filed with

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the Securities and Exchange Commission in the Annual Report on Form 10-K for the year ended June 30, 2001.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are inapplicable or the required information is shown in the financial statements or notes thereto, and therefore have been omitted.

3. Exhibits:

3.1 Restated Certificate of Incorporation of the Company (incorporated by reference to the Registration Statement 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* 1999 Employee Stock Purchase Plan (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1999).

10.2* 1992 Employee Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 33-60644).

10.3* 1992 Nonemployee Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 33-60214).

10.4* 1987 Employee Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 33-33497).

10.5* 1987 Nonemployee Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 33-40038).

10.6* Form of Executive Officer and Director Indemnity Agreement (incorporated by reference to the Company's Registration Statement on Form S-1, Registration No. 33-13050).

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10.7* Severance Agreement, dated as of November 16, 1998, of Gerhard J. Von der Ruhr (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999).

10.8* Severance Agreement, dated as of November 16, 1998, of N.C. Joseph Lai (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999).

10.9* Employment Agreement of Emil H. Soika, dated as of June 26, 2001.

10.10* Employment Agreement of Stephen D. Okland (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June

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30, 1999).

10.11* Employment Agreement of Drew M. Diaz (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1999).

10.12+ Supply Partnership Agreement, dated as of August 1, 2000, between the Company and BioCare Corporation.

10.13+ Supply Agreement, dated as of October 26, 2000, between the Company and TriVirix International Limited.

21 Subsidiaries (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1999).

23.1 Consent of BDO Seidman, LLP.

24+ Power of Attorney.

* Management contract or compensatory plan or arrangement.

+ Previously filed.

(b) Reports on Form 8-K.

The Company filed no reports on Form 8-K during the quarter ended June 30, 2001.

(c) Exhibits.

The response to this portion of Item 14 is submitted as a separate section of this report.

(d) Financial Statement Schedules.

The response to this portion of Item 14 is submitted as a separate section of this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

CRITICARE SYSTEMS, INC.

By /s/ Emil H. Soika

Emil H. Soika, President
and Chief Executive Officer

Date: May 20, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K/A has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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| Signature | Title | Date |
|---|---|--------------|
| ----- /s/ Emil H. Soika ----- Emil H. Soika | President, Chief Executive Officer and Director (Principal Executive Officer) | May 20, 2002 |
| ----- /s/ Michael J. Sallmann ----- Michael J. Sallmann | Vice President-Finance and Secretary (Principal Financial and Accounting Officer) | May 20, 2002 |
| * ----- Karsten Houm | Chairman of the Board and Director | |
| * ----- Milton Datsopoulos | Director | |
| * ----- N.C. Joseph Lai, Ph.D. | Director | |
| * ----- Dr. Higgins Bailey | Director | |
| * ----- Jeffrey T. Barnes | Director | |
| * ----- Stephen K. Tannenbaum | Director | |
| *By: /s/ Emil H. Soika ----- Attorney-in-fact Pursuant to Power of Attorney | | May 20, 2002 |