

CRITICARE SYSTEMS INC /DE/
Form 10-Q
May 11, 2004

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, 2004

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 1-31943

CRITICARE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware 39-1501563
(State or other jurisdiction (IRS Employer Identification No.)
of incorporation or organization)

20925 Crossroads Circle, Suite 100, Waukesha, Wisconsin 53186
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

Number of shares outstanding of each class of the registrant's classes of common stock as of March 31, 2004: Class A Common Stock 11,436,430 shares.

CRITICARE SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2004 AND JUNE 30, 2003

(UNAUDITED)

ASSETS	March 31, 2004	June 30, 2003
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,985,309	\$ 3,716,446
Accounts receivable, less allowance for doubtful accounts of \$350,000 and \$300,000, respectively	6,842,557	5,627,198
Other receivables	496,074	553,147
Inventories	6,268,064	6,347,208
Prepaid expenses	311,995	340,934
Total current assets	17,903,999	16,584,933
Property, plant and equipment net	2,358,864	2,093,408
License rights and patents net	78,735	83,986
TOTAL ASSETS	\$ 20,341,598	\$ 18,762,327
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,968,682	\$ 2,272,953
Accrued liabilities:		
Compensation and commissions	854,175	850,034
Product warranties	444,000	312,000
Other	246,283	254,470
Total current liabilities	4,513,140	3,689,457
LONG-TERM LIABILITIES:		
Obligations under capital lease	333,840	
Other long-term obligations	25,263	38,662
Total long-term liabilities	359,103	38,662
TOTAL LIABILITIES	4,872,243	3,728,119

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, 11,562,749 and 11,204,024 shares issued, and 11,436,430 and 11,073,832 outstanding, respectively	462,510	448,161
Additional paid-in capital	23,940,739	23,360,244
Common stock held in treasury (126,319 and 130,192 shares, respectively)	(412,403)	(419,618)
Subscriptions receivable		(225,000)
Retained earnings (accumulated deficit)	(8,518,009)	(8,126,097)
Cumulative translation adjustment	(3,482)	(3,482)
	<u> </u>	<u> </u>
Total stockholders' equity	15,469,355	15,034,208
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 20,341,598	\$ 18,762,327
	<u> </u>	<u> </u>

See notes to consolidated financial statements.

2

CRITICARE SYSTEMS, INC.
CONSOLIDATED INCOME STATEMENTS
NINE MONTHS ENDED MARCH 31, 2004 AND 2003

(UNAUDITED)

	2004	2003
NET SALES	\$ 21,923,864	\$ 21,857,740
COST OF GOODS SOLD	<u>12,855,828</u>	<u>13,041,237</u>
GROSS PROFIT	9,068,036	8,816,503
OPERATING EXPENSES:		
Sales and marketing	5,316,293	4,875,229
Research, development and engineering	1,810,732	2,078,572
Administrative	<u>2,484,791</u>	<u>2,977,022</u>
Total	9,611,816	9,930,823
LOSS FROM OPERATIONS	(543,780)	(1,114,320)
OTHER INCOME (EXPENSE):		
Interest expense		(91,533)
Interest income	29,496	40,544
Other	122,371	1,513,513

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

Total	151,867	1,462,524
(LOSS) INCOME BEFORE INCOME TAXES	(391,913)	348,204
INCOME TAX PROVISION		
NET (LOSS) INCOME	\$ (391,913)	\$ 348,204
NET (LOSS) INCOME PER COMMON SHARE:		
Basic	\$ (0.04)	\$ 0.03
Diluted	\$ (0.04)	\$ 0.03
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	11,173,768	11,071,267
Diluted	11,173,768	11,423,100

See notes to consolidated financial statements.

3

CRITICARE SYSTEMS, INC.
CONSOLIDATED INCOME STATEMENTS
THREE MONTHS ENDED MARCH 31, 2004 AND 2003

(UNAUDITED)

	2004	2003
NET SALES	\$ 6,571,171	\$ 6,503,787
COST OF GOODS SOLD	3,762,149	4,022,771
GROSS PROFIT	2,809,022	2,481,016
OPERATING EXPENSES:		
Sales and marketing	1,944,077	1,533,931
Research, development and engineering	586,419	692,917
Administrative	759,740	888,261
Total	3,290,236	3,115,109
LOSS FROM OPERATIONS	(481,214)	(634,093)
OTHER INCOME (EXPENSE):		
Interest expense		

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

Interest income	8,748	12,016
Other	59,859	1,081,761
Total	68,607	1,093,777
(LOSS) INCOME BEFORE INCOME TAXES	(412,607)	459,684
INCOME TAX PROVISION		
NET (LOSS) INCOME	\$ (412,607)	\$ 459,684
NET (LOSS) INCOME PER COMMON SHARE:		
Basic	\$ (0.04)	\$ 0.04
Diluted	\$ (0.04)	\$ 0.04
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	11,326,283	11,071,273
Diluted	11,326,283	11,370,087

See notes to consolidated financial statements.

4

CRITICARE SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED MARCH 31, 2004 AND 2003

(UNAUDITED)

	2004	2003
OPERATING ACTIVITIES:		
Net (loss) income	\$ (391,913)	\$ 348,204
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	442,910	713,839
Amortization	5,251	5,251
Provision for doubtful accounts	80,602	
Provision for obsolete inventory	429,073	184,225
Gain on sale of Immtech stock		(1,290,252)
Gain on sale of building		(41,208)
Changes in assets and liabilities:		
Accounts receivable	(1,295,961)	57,132
Other receivables	57,073	211,149
Inventories	(400,094)	(473,197)
Prepaid expenses	28,939	120,979
Accounts payable	695,729	822,633
Accrued liabilities	114,555	(127,827)

Net cash (used in) provided by operating activities	(233,836)	530,928
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment, net	(324,360)	(674,757)
Proceeds from sale of Immtech stock		1,290,252
Proceeds from sale of building		3,795,164
Net cash (used in) provided by investing activities	(324,360)	4,410,659
FINANCING ACTIVITIES:		
Retirement of long-term debt		(3,197,125)
Repurchase of Company common stock		(121,359)
Proceeds from issuance of common stock	827,059	17,368
Net cash provided by (used in) financing activities	827,059	(3,301,116)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		268
NET INCREASE IN CASH AND CASH EQUIVALENTS	268,863	1,640,739
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,716,446	3,523,070
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,985,309	\$ 5,163,809

See notes to consolidated financial statements.

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 2003 financial statements have been reclassified to conform to the 2004 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, 2004 and June 30, 2003, respectively:

	March 31, 2004	June 30, 2003
Component parts	\$ 2,198,612	\$ 2,762,803
Work in process	693,622	811,906
Finished units	4,247,694	4,172,499
Total inventories	7,139,928	7,747,208
Less: reserve for obsolescence	871,864	1,400,000
Net inventory	\$ 6,268,064	\$ 6,347,208

3. Investments

During fiscal 2003, the Company completely liquidated its position in its Immtech International, Inc. (Immtech) common stock. In the first three quarters of fiscal 2003 ended March 31, 2003 the Company sold all 456,374 shares of its Immtech stock and realized the following gains:

	Shares Sold	Realized Gain
1 st quarter ended September 30, 2002	50,000	\$ 241,746
2 nd quarter ended December 31, 2002	4,000	14,097
3rd quarter ended March 31, 2003	402,374	1,034,410
Total	456,374	\$ 1,290,252