

CRITICARE SYSTEMS INC /DE/

Form DEF 14A

October 29, 2007

Table of Contents

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

- Filed by the Registrant
- Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

Criticare Systems, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Not Applicable

(2) Aggregate number of securities to which transaction applies:

Not Applicable

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

Not Applicable

(4) Proposed maximum aggregate value of transaction:

Not Applicable

(5) Total fee paid:

Not Applicable

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

Not Applicable

- (2) Form, Schedule or Registration Statement No.:
Not Applicable
- (3) Filing Party:
Not Applicable
- (4) Date Filed:
Not Applicable
-

Table of Contents

**CRITICARE SYSTEMS, INC.
20925 Crossroads Circle, Suite 100
Waukesha, Wisconsin 53186**

Notice of Annual Meeting of Stockholders

The Annual Meeting of Stockholders of Criticare Systems, Inc. will be held at the Company's headquarters, 20925 Crossroads Circle, Suite 100, Waukesha, Wisconsin 53186, on November 27, 2007 at 4:00 p.m., local time, for the following purposes:

1. To elect five directors each to serve until the 2008 Annual Meeting of Stockholders.
2. To ratify the appointment of BDO Seidman, LLP, independent registered public accounting firm, as auditors of the Company for its fiscal year ending June 30, 2008.
3. To transact any other business as may properly come before the meeting and any adjournment or adjournments thereof.

The transfer books of the Company will not be closed for the Annual Meeting. Stockholders of record at the close of business on October 10, 2007 are entitled to receive notice of, and to vote at, the Annual Meeting.

All stockholders are cordially invited to attend the meeting in person, if possible. Stockholders who are unable to be present in person are requested to complete, sign and date the enclosed proxy and return it promptly in the enclosed envelope. Your attendance at the meeting, whether in person or by proxy, is important to ensure a quorum. If you later find that you may be present at the meeting or for any other reason desire to revoke your proxy, you may do so at any time before it is voted. Stockholders holding shares in brokerage accounts (street name holders) who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares.

By Order of the Board of Directors

Joel D. Knudson, Secretary

Waukesha, Wisconsin
October 30, 2007

TABLE OF CONTENTS

| Section | Page No. |
|---|-----------------|
| <u>General Information</u> | 1 |
| <u>Election of Directors</u> | 1 |
| <u>Directors Meetings and Committees</u> | 3 |
| <u>Audit Committee</u> | 3 |
| <u>Compensation Committee</u> | 3 |
| <u>Nominating and Corporate Governance Committee</u> | 3 |
| <u>Corporate Governance Matters</u> | 4 |
| <u>Director Independence</u> | 4 |
| <u>Director Nominations</u> | 4 |
| <u>Communications between Stockholders and the Board of Directors</u> | 5 |
| <u>Code of Business Ethics</u> | 5 |
| <u>Review and Approval of Related Person Transactions</u> | 5 |
| <u>Audit Committee Matters</u> | 6 |
| <u>Report of the Audit Committee</u> | 6 |
| <u>Fees of Independent Registered Public Accounting Firm</u> | 6 |
| <u>Audit Committee Financial Expert</u> | 7 |
| <u>Executive Officers</u> | 7 |
| <u>Security Ownership</u> | 8 |
| <u>Section 16(A) Beneficial Ownership Reporting Compliance</u> | 9 |
| <u>Executive Compensation</u> | 9 |
| <u>Compensation Discussion and Analysis</u> | 9 |
| <u>Report of the Compensation Committee</u> | 14 |
| <u>Summary Compensation Table</u> | 14 |
| <u>Grants of Plan-Based Awards</u> | 15 |
| <u>Outstanding Equity Awards at Fiscal Year-End</u> | 16 |
| <u>Option Exercises</u> | 16 |
| <u>Employment Agreements</u> | 16 |
| <u>Post-Employment Compensation</u> | 17 |
| <u>Director Compensation</u> | 19 |
| <u>Director Summary Compensation Table</u> | 19 |
| <u>Ratification of Appointment of Independent Registered Public Accounting Firm</u> | 20 |
| <u>Proposals for 2008 Annual Meeting</u> | 21 |
| <u>Expenses of Solicitation</u> | 21 |
| <u>Annual Report</u> | 21 |

Table of Contents

**CRITICARE SYSTEMS, INC.
20925 Crossroads Circle, Suite 100
Waukesha, Wisconsin 53186**

PROXY STATEMENT FOR 2007 ANNUAL MEETING OF STOCKHOLDERS

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Criticare Systems, Inc. (the Company), to be voted at the Annual Meeting of Stockholders to be held at the Company's headquarters, 20925 Crossroads Circle, Suite 100, Waukesha, Wisconsin 53186, at 4:00 p.m., local time, on Tuesday, November 27, 2007, and at any adjournments thereof, for the purposes set forth in the accompanying Notice of Meeting. The mailing of this Proxy Statement and accompanying form of proxy is being made on or about October 30, 2007.

GENERAL INFORMATION

The Board of Directors knows of no business, which will be presented to the meeting other than the matters referred to in the accompanying Notice of Annual Meeting. However, if any other matters are properly presented to the meeting, it is intended that the persons named in the proxy will vote on such matters in accordance with their judgment. If the enclosed form of proxy is executed and returned, it nevertheless may be revoked at any time before it has been voted by a later dated proxy or a vote in person at the Annual Meeting. Shares represented by properly executed proxies received on behalf of the Company will be voted at the Annual Meeting (unless revoked prior to their vote) in the manner specified therein. If no instructions are specified in a signed proxy returned to the Company, the shares represented thereby will be voted (1) in **FAVOR** of the election of the nominees listed in the enclosed proxy as directors of the Company and (2) in **FAVOR** of the ratification of BDO Seidman, LLP as the Company's independent registered public accounting firm for the 2008 fiscal year.

Only holders of the Company's common stock, par value \$0.04 per share (the Common Stock), whose names appear of record on the books of the Company at the close of business on October 10, 2007 (the Record Date) are entitled to vote at the Annual Meeting. On that date, the only outstanding shares of capital stock of the Company were 12,319,831 shares of Common Stock. Each share of Common Stock is entitled to one vote on each matter to be presented at the meeting. The election of the directors requires the affirmative vote of the holders of a plurality of the shares represented, in person or by proxy, at the meeting and the ratification of the Company's independent registered public accounting firm requires the affirmative vote of the holders of a majority of the shares represented, in person or by proxy, at the meeting. Abstentions and broker non-votes (*i.e.*, shares held by brokers in street name, voting on certain matters due to discretionary authority or instructions from the beneficial owners but not voting on other matters due to lack of authority to vote on such matters without instructions from the beneficial owner) will count toward the quorum requirement and will not count toward the determination of whether the directors are elected or the appointment of the independent registered public accounting firm is ratified.

ELECTION OF DIRECTORS

Pursuant to the authority contained in our By-Laws, our Board of Directors has established the number of our directors at five. Our By-Laws have been amended to provide that, effective as of the 2007 Annual Meeting of Stockholders, our Board of Directors will be declassified, with each director elected for one-year terms. Accordingly, our Board of Directors has nominated for re-election five of the current directors, each to serve a term of one year until the 2008 Annual Meeting of Stockholders. Proxies cannot be voted for more than five candidates for director.

Sam B. Humphries, a former director of the Company, passed away on August 7, 2007.

Dr. Higgins D. Bailey will retire from the Board and as Chairman of the Board as of the 2007 Annual Meeting of Stockholders. Jeffrey T. Barnes, Vice Chairman of the Board, will succeed to the functions of Chairman of the Board until a new Chairman of the Board is elected.

Table of Contents

The directorships of Robert E. Munzenrider and William M. Moore are connected with the termination of the consent solicitation commenced by BlueLine Partners L.L.C. pursuant to the terms of an Agreement dated as of April 2, 2007 among the Company, BlueLine Catalyst Fund VII, L.P., BlueLine Partners, L.L.C. (California), BlueLine Capital Partners, L.P. and BlueLine Partners L.L.C. (Delaware).

As indicated below, the persons nominated by our Board of Directors are incumbent directors. We anticipate that the nominees will be candidates when the election is held. However, if for any reason either of the nominees is not a candidate at that time, proxies will be voted for any substitute nominee designated by the incumbent directors (except where a proxy withholds authority with respect to the election of a director).

The Board of Directors recommends that stockholders vote in FAVOR of the election all incumbent directors of the Company.

| Name, Age, Principal Occupation for Past Five Years and Directorships | Age | Director Since | Present Term Ends |
|--|------------|-----------------------|--------------------------|
| Nominees For Election as Directors | | | |
| Jeffrey T. Barnes Mr. Barnes has served as our Vice Chairman of the Board since August 2006. Mr. Barnes has been a partner of Oxford Bioscience, a venture capital firm, since October 1999. From February 1997 to October 1999, Mr. Barnes served as a Principal of Robertson Stephens, an investment banking firm. | 53 | 2000 | 2007 Annual Meeting |
| N.C. Joseph Lai, Ph.D. Dr. Lai has served as Executive Chairman of BioForm, Inc., a company that produces special medical devices, since December 2002. From June 1999 to December 2002, Dr. Lai served as President and Chief Executive Officer of BioForm, Inc. Dr. Lai was a co-founder of the Company and served as Vice Chairman of its Board and as an officer from the Company's inception in October 1984 until November 1998. | 65 | 1984 | 2007 Annual Meeting |
| William M. Moore Mr. Moore has served as a director of BlueLine Partners, L.L.C. since February 2004 and as a general partner of Alpine Partners, a venture capital firm, since March 2003. Mr. Moore served as Chief Executive Officer of Metasensors, Inc., a medical device company, from August 1997 to March 2003. Mr. Moore is a co-founder and director of Natus Medical Inc., a medical device company, and a director of IRIDEX Corporation, a provider of therapeutic based laser systems and delivery devices used to treat eye diseases in ophthalmology and skin conditions in dermatology. | 59 | 2007 | 2007 Annual Meeting |
| Robert E. Munzenrider Mr. Munzenrider was the President of Harmon AutoGlass, a subsidiary of Apogee Enterprises, Inc., a national chain of retail automotive services and insurance claims processor, from 2000 to 2002. From 1999 to 2000, Mr. Munzenrider served as Vice President and Chief Financial Officer of the Glass Services Segment of Apogee Enterprises. He also served during part of 1999 as Executive Vice President and Chief Financial Officer of Eliance Corp., an e-commerce transaction | 62 | 2007 | 2007 Annual Meeting |

processor. From 1997 to 1998, Mr. Munzenrider served as Vice President and Chief Financial Officer of St. Jude Medical, Inc., an international medical device manufacturing and marketing company. Mr. Munzenrider is also a director of Viad Corp. and ATS Medical, Inc.

Table of Contents

| Name, Age, Principal Occupation for Past Five Years and Directorships | Age | Director Since | Present Term Ends |
|--|------------|-----------------------|--------------------------|
| Emil H. Soika Mr. Soika has served as our President and Chief Executive Officer since November 1998. From November 1995 to September 1998, Mr. Soika served as Vice President and General Manager of Spacelabs Medical, a medical monitoring and clinical information systems company. | 69 | 1998 | 2007 Annual Meeting |

DIRECTORS MEETINGS AND COMMITTEES

Our Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The Board of Directors held 11 meetings during our fiscal year ended June 30, 2007. All of the incumbent directors attended at least 75% of the meetings of the Board of Directors and of the committees of the Board of Directors upon which they served.

Audit Committee

The members of the Audit Committee are Dr. Higgins D. Bailey, Dr. N.C. Joseph Lai, Jeffrey T. Barnes and Robert E. Munzenrider (Chairman). Mr. Munzenrider joined the Audit Committee in April 2007 and Mr. Barnes joined the Audit Committee in August 2007. The Audit Committee met five times during the fiscal year ended June 30, 2007. The Audit Committee is responsible for assisting the Board of Directors with oversight of (1) the integrity of our financial statements, (2) our compliance with legal and regulatory requirements, (3) the independent auditors qualifications and independence and (4) the performance of our internal accounting function and independent auditors. The Audit Committee has the direct authority and responsibility to select, evaluate and, where appropriate, replace the independent auditors, and is an audit committee for purposes of section 3(a)(58)(A) of the Securities Exchange Act of 1934. The Audit Committee's report required by the rules of the Securities and Exchange Commission (SEC) appears on page 6.

Compensation Committee

The Board's Compensation Committee is comprised of Dr. Higgins D. Bailey (Chairman), Jeffrey T. Barnes and William M. Moore. Mr. Moore and Mr. Barnes joined the Compensation Committee in August 2007. Mr. Humphries served on the Compensation Committee from November 2006 to August 2007. The Compensation Committee, in addition to such other duties as may be specified by the Board of Directors, reviews and makes recommendations to the Board with respect to the compensation levels and other benefits of executive officers, administers and oversees our stock plans and reviews and makes recommendations to the Board with respect to the compensation of outside directors. We have placed a current copy of the charter of the Compensation Committee on our website located at www.csiusa.com. The Compensation Committee met two times during the fiscal year ended June 30, 2007.

Nominating and Corporate Governance Committee

The Board's Nominating and Corporate Governance Committee is comprised of Dr. Higgins D. Bailey (Chairman), Jeffrey T. Barnes and Robert E. Munzenrider. Mr. Barnes and Mr. Munzenrider joined the Nominating and Corporate Governance Committee in August 2007. The Nominating and Corporate Governance Committee is responsible for assisting the Board of Directors by identifying individuals qualified to become members of the Board of Directors and its committees, recommending to the Board of Directors nominees for the annual meeting of stockholders, developing

and recommending to the Board of Directors a set of corporate governance principles applicable to the Company and assisting the Board of Directors in assessing director performance and the effectiveness of the Board of Directors. We have placed a current copy of the charter of the Nominating and Corporate Governance Committee on our web site located at www.csiusa.com. Due mainly to the two consent solicitations initiated by BlueLine Partners, during fiscal

Table of Contents

2007 the full Board considered all corporate governance and nominating topics normally discussed by the Nominating and Corporate Governance Committee. As such, no formal meetings of the separate committee took place during the fiscal year ended June 30, 2007.

CORPORATE GOVERNANCE MATTERS

We are committed to establishing and maintaining high standards of corporate governance, which are intended to serve the long-term interests of the Company and our stockholders. Our Board of Directors has adopted Corporate Governance Guidelines, which can be found on our web site at www.ciusa.com.

Director Independence

Our Board of Directors has reviewed the independence of its incumbent and nominee directors under the applicable standards of the American Stock Exchange. Based on this review, the Board of Directors determined that each of the following directors is independent under the listing standards of the American Stock Exchange:

- (1) Jeffrey T. Barnes
- (2) Dr. N.C. Joseph Lai

- (3) Robert E. Munzenrider
- (4) William M. Moore

Based upon such standards, Emil H. Soika is the only director who is not independent because Mr. Soika is our President and Chief Executive Officer.

Director Nominations

We have a standing Nominating and Corporate Governance Committee. Based on the review described under Corporate Governance Matters Director Independence, the Board of Directors has determined that each member of the Nominating and Corporate Governance Committee is independent under the applicable standards of the American Stock Exchange.

The Nominating and Corporate Governance Committee will consider director nominees recommended by stockholders. A stockholder who wishes to recommend a person or persons for consideration as a nominee for election to the Board of Directors must send a written notice by mail, c/o Secretary, Criticare Systems, Inc., 20925 Crossroads Circle, Suite 100, Waukesha, Wisconsin 53186, that sets forth: (1) the name, address (business and residence), date of birth and principal occupation or employment (present and for the past five years) of each person whom the stockholder proposes to be considered as a nominee; (2) the number of shares of Common Stock beneficially owned (as defined by section 13(d) of the Securities Exchange Act of 1934) by each such proposed nominee; (3) any other information regarding such proposed nominee that would be required to be disclosed in a definitive proxy statement to stockholders prepared in connection with an election of directors pursuant to section 14(a) of the Securities Exchange Act of 1934; and (4) the name and address (business and residential) of the stockholder making the recommendation and the number of shares of our Common Stock beneficially owned (as defined by section 13(d) of the Securities Exchange Act of 1934) by the stockholder making the recommendation. We may require any proposed nominee to furnish additional information as may be reasonably required to determine the qualifications of such proposed nominee to serve as a director of the Company. Stockholder recommendations will be considered only if received no less than 120 days nor more than 150 days before the date of the proxy statement sent to stockholders in connection with the previous year's annual meeting of stockholders.

The Nominating and Corporate Governance Committee will consider any nominee recommended by a stockholder in accordance with the preceding paragraph under the same criteria as any other potential nominee. The Nominating and

Corporate Governance Committee believes that a nominee recommended for a position on our Board of Directors must have an appropriate mix of director characteristics, experience, diverse perspectives and skills. Qualifications of a prospective nominee that may be considered by the Nominating and Corporate Governance Committee include:

personal integrity and high ethical character;

Table of Contents

professional excellence;

accountability and responsiveness;

absence of conflicts of interest;

fresh intellectual perspectives and ideas; and

relevant expertise and experience and the ability to offer advice and guidance to management based on that expertise and experience.

The directorships of Robert E. Munzenrider and William M. Moore are connected with the termination of the consent solicitation commenced by BlueLine Partners L.L.C. pursuant to the terms of an Agreement dated as of April 2, 2007 among the Company, BlueLine Catalyst Fund VII, L.P., BlueLine Partners, L.L.C. (California), BlueLine Capital Partners, L.P. and BlueLine Partners L.L.C. (Delaware).

Communications between Stockholders and the Board of Directors

We have placed on our web site located at www.csiusa.com a description of the procedures for stockholders to communicate with the Board of Directors, a description of our policy for our directors and nominee directors to attend the Annual Meeting and the number of directors who attended last year's annual meeting of stockholders.

Code of Business Ethics

We have adopted a Code of Business Ethics that applies to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer. A copy of the Code of Business Ethics is available on our corporate web site, which is located at www.csiusa.com. We also intend to disclose any amendments to, or waivers from, the Code of Business Ethics on our corporate web site.

Review and Approval of Related Person Transactions

The charter for our Audit Committee provides that one of the responsibilities of our Audit Committee is to review and approve related party transactions for potential conflicts of interest. Our Board of Directors will consider adopting a formal written set of policies and procedures for the review, approval or ratification of related person transactions during fiscal 2008.

Table of Contents**AUDIT COMMITTEE MATTERS****Report of the Audit Committee**

Our Audit Committee is comprised of four members of our Board of Directors. Based upon the review described above under Corporate Governance Matters Director Independence, the Board of Directors has determined that each member of the Audit Committee is independent as defined in the listing standards of the American Stock Exchange and the rules of the Securities and Exchange Commission. The duties and responsibilities of our Audit Committee are set forth in the Audit Committee Charter. The full text of the Audit Committee Charter is on our web site located at www.csiusa.com.

Our Audit Committee has:

reviewed and discussed our audited financial statements for the fiscal year ended June 30, 2007 with our management and with our independent auditors;

discussed with our independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communications with Audit Committees, as revised; and

received and discussed the written disclosures and the letter from our independent auditors required by Independence Standards Board Statement No. 1 (Independence discussions with Audit Committees).

Based on such review and discussions with management and the independent auditors, the Audit Committee recommended to our Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE:

Robert E. Munzenrider (Chairman)
 Dr. Higgins D. Bailey
 Dr. N.C. Joseph Lai
 Jeffrey T. Barnes

Fees of Independent Registered Public Accounting Firm

The following table summarizes the fees we were billed for audit and non-audit services rendered by our independent auditors during fiscal 2007 and 2006:

| Service Type | Fiscal 2007 | Fiscal 2006 |
|--------------------------|--------------------|--------------------|
| Audit Fees(1) | \$ 158,500 | \$ 170,060 |
| Audit-related Fees | | |
| Tax Fees(2) | 17,500 | 19,350 |
| All Other Fees | | |
| Total Fees Billed | \$ 176,000 | \$ 189,410 |

- (1) Consists of fees for professional services rendered in connection with the audit of our financial statements for the fiscal years ended June 30, 2007 and June 30, 2006; the reviews of the financial statements included in each of our quarterly reports on Form 10-Q during those fiscal years; and consents and assistance with documents filed by the Company with the Securities and Exchange Commission.
- (2) Consists of fees for tax advisory services in connection with preparation of our federal and state tax returns and I.R.S. audit.

Our Audit Committee considered that the provision of the services and the payment of the fees described above are compatible with maintaining the independence of BDO Seidman, LLP.

Table of Contents

Our Audit Committee is responsible for reviewing and pre-approving any non-audit services to be performed by our independent auditors. The Audit Committee has delegated certain of its pre-approval authority to the Chairman of the Audit Committee to act between meetings of the Audit Committee. Any pre-approval given by the Chairman of the Audit Committee pursuant to this delegation is presented to the full Audit Committee at its next regularly scheduled meeting. The Audit Committee or Chairman of the Audit Committee reviews and, if appropriate, approves non-audit service engagements, taking into account the proposed scope of the non-audit services, the proposed fees for the non-audit services, whether the non-audit services are permissible under applicable law or regulation and the likely impact of the non-audit services on the independence of the independent auditors.

Since the effective date of the Securities and Exchange Commission rules requiring pre-approval of non-audit services on May 6, 2003, each new engagement of our independent auditors to perform non-audit services has been approved in advance by the Audit Committee or the Chairman of the Audit Committee pursuant to the foregoing procedures.

Audit Committee Financial Expert

Our Board of Directors has determined that one of the members of the Audit Committee, Robert E. Munzenrider, qualifies as an audit committee financial expert as defined by the rules of the Securities and Exchange Commission based on his work experience and education.

EXECUTIVE OFFICERS

The following table sets forth the name, age, current position and principal occupation and employment during the past five years of our executive officers:

| Name | Age | Title |
|-------------------|------------|---|
| Emil H. Soika | 69 | President, Chief Executive Officer and Director |
| Drew M. Diaz | 44 | Vice President-Worldwide Sales |
| Michael T. Larsen | 48 | Vice President-Quality and Regulatory Affairs |
| Joseph P. Lester | 57 | Vice President and General Manager |
| Deborah A. Zane | 53 | Vice President-Marketing and Business Development |
| Joel D. Knudson | 42 | Vice President-Finance and Secretary |

The term of office and past business experience of Mr. Soika are described above under Election of Directors.

Mr. Diaz was promoted from Director of International Sales to Vice President-International Sales in May 1997 and was most recently promoted to Vice President-Worldwide Sales in January 2002.

Mr. Larsen has served as Vice President-Quality and Regulatory Affairs since October 2004. Mr. Larsen served as our Vice President-Quality Control/Quality Assurance from September 1990 until October 2004.

Mr. Lester was promoted to Vice President and General Manager in October 2000 and joined our company as Vice President-Operations in January 2000. Prior to joining the Company, Mr. Lester was Vice President-Operations for Siemens Medical Systems, Inc., a medical device company, from April 1997 to January 2000.

Ms. Zane has served as our Vice President-Marketing and Business Development since September 2001. From March 1999 to September 2001, Ms. Zane served in various marketing positions for the Company.

Mr. Knudson has served as our Vice President-Finance and Secretary since September 2004. Mr. Knudson was our Controller from February 2004 to September 2004. Prior to joining the Company, Mr. Knudson was the Controller for S.K. Williams Co., a metal finishing company, from November 2002 to February 2004 and, prior to that, was the Controller for Anguil Environmental Systems, Inc., a manufacturer of pollution control systems, from November 1994 until October 2002.

Table of Contents**SECURITY OWNERSHIP**

The following table sets forth information with respect to beneficial ownership of our Common Stock as of September 28, 2007 by (a) each of our directors, (b) each named executive officer (as defined below), (c) each person known by us to own beneficially more than 5% of our Common Stock, and (d) all of our directors and executive officers as a group.

We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. Unless otherwise indicated, the persons and entities included in the table have sole voting and investment power with respect to all shares beneficially owned, except to the extent authority is shared by spouses under applicable law. Shares of Common Stock subject to options that are either currently exercisable or exercisable within 60 days of September 28, 2007 are treated as outstanding and beneficially owned by the option holder for the purpose of computing the percentage ownership of the option holder. However, these shares are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The table lists the applicable percentage ownership based on 12,318,985 shares outstanding as of September 28, 2007.

| Name and Address of Beneficial Owner(1) | Number of Shares Owned | Percent |
|--|-----------------------------------|----------------|
| <u>Principal Stockholders:</u> | | |
| Heartland Advisors, Inc. | 1,427,400(2) | 11.6% |
| BlueLine Partners, L.L.C. | 1,368,700(3) | 11.1% |
| White Pine Capital, LLC | 670,325(4) | 5.4% |
| <u>Directors and Executive Officers:</u> | | |
| Higgins D. Bailey | 7,500(5) | * |
| Jeffrey T. Barnes | | * |
| N.C. Joseph Lai, Ph.D. | 359,710(6) | 2.9% |
| Emil H. Soika | 140,191(7) | 1.1% |
| William M. Moore | 4,949 | * |
| Robert E. Munzenrider | | * |
| Drew M. Diaz | 68,614(8) | * |
| Joseph P. Lester | 43,750(9) | * |
| Deborah A. Zane | 36,250(10) | * |
| Joel D. Knudson | 53,750(11) | * |
| All directors and executive officers as a group (11 persons) | 752,464(12) | 6.0% |

* Less than 1%

- (1) Unless otherwise indicated, the address of the beneficial owner is 20925 Crossroads Circle, Suite 100, Waukesha, Wisconsin 53186; the address of Mr. Barnes is 222 Berkeley Street, Suite 1650, Boston, Massachusetts 02116-3733; the address of Dr. Lai is W302 N6117 Spence Road, Hartland, WI 53029; the address of Mr. Moore is 4115 Blackhawk Plaza Circle, Suite 100, Danville, California 94506; the address of Dr. Bailey is 102 Celano Circle, Palm Desert, CA 92211; and the address of Mr. Munzenrider is 1302 W. Aviator Circle, Payson, AZ 85541.

(2)

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Heartland Advisors, Inc. (Heartland) filed a Schedule 13G/A dated February 9, 2007 reporting that as of December 31, 2006 Heartland was the beneficial owner of 1,427,400 shares of Common Stock. Heartland shares voting and investment power with respect to all such shares. William J. Nasgovitz may be deemed to share voting and investment power over all such shares, and each of Heartland and Mr. Nasgovitz disclaim beneficial ownership of such shares. Heartland s address is 789 North Water Street, Milwaukee, Wisconsin 53202.

- (3) Pursuant to a Preliminary Schedule 14A filed on November 17, 2006, BlueLine Capital Partners, L.P. (BCP) and BlueLine Catalyst Fund VII, L.P. (BlueLine Catalyst) hold 922,500 and 446,200 shares of the Company s Common Stock, respectively. As the general partner of BCP, BlueLine Partners L.L.C., a

Table of Contents

Delaware limited liability company (BlueLine Delaware), may be deemed to be the beneficial owner of the 922,500 shares of Common Stock held by BCP. As general partner of BlueLine Catalyst, BlueLine Partners, L.L.C., a California limited liability company (BlueLine California), may be deemed to be the beneficial owner of the 446,200 shares of Common Stock held by BlueLine Catalyst. Collectively, as of November 15, 2006, BCP, BlueLine Catalyst, BlueLine Delaware and BlueLine California own a total of 1,368,700 shares of Common Stock. BlueLine s address is 4115 Blackhawk Plaza Circle, Suite 100, Danville, California 94506.

- (4) White Pine Capital, LLC (White Pine) filed a Schedule 13G dated February 9, 2007 reporting that as of December 31, 2006 White Pine was the beneficial owner of 670,325 shares of Common Stock. White Pine has sole voting and investment power over all such shares. White Pine s address is 60 South Sixth Street, Suite 2530, Minneapolis, Minnesota 55402.
- (5) Consists of 7,500 shares, which Mr. Bailey has the right to acquire under currently exercisable options.
- (6) Consists of 154,710 shares owned directly by Dr. Lai; 116,000 shares owned of record by Dr. Lai s wife; 85,000 shares owned by a trust of which Dr. Lai and his wife are trustees; and 4,000 shares owned by the Lai Family Foundation.
- (7) Consists of 87,000 shares owned directly by Mr. Soika, 37,500 shares which Mr. Soika has the right to acquire under currently exercisable options and 15,691 shares in Mr. Soika s account under the Criticare Systems, Inc. Employee Stock Purchase Plan (the Purchase Plan).
- (8) Consists of 22,200 shares owned directly by Mr. Diaz, 44,000 shares which Mr. Diaz has the right to acquire under currently exercisable options and 2,414 shares in Mr. Diaz s account under the Purchase Plan.
- (9) Consists of 43,750 shares, which Mr. Lester has the right to acquire under currently exercisable options.
- (10) Consists of 36,250 shares, which Ms. Zane has the right to acquire under currently exercisable options.
- (11) Consists of 53,750 shares, which Mr. Knudson has the right to acquire under currently exercisable options.
- (12) Includes 255,500 shares of Common Stock the members of the group have a right to acquire under currently exercisable options and 18,105 shares in the accounts of the members of the group under our Employee Stock Purchase Plan.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file with the Securities and Exchange Commission reports of initial beneficial ownership on Form 3 and reports of changes in beneficial ownership on Forms 4 and 5. Officers, directors and greater than 10% stockholders are required by regulations of the Securities and Exchange Commission to furnish us with copies of all Forms 3, 4 and 5 they file. Based solely on a review of the copies of such forms furnished to us, or written representations that no Forms 5 were required, we believe that during fiscal 2006 all section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were complied with, except that Mr. Barnes filed a Form 4 report on January 4, 2007 reporting transactions occurring on December 15, 2005 and December 19, 2006; Mr. Larsen filed a Form 4 report on February 12, 2007 reporting a transaction occurring on February 5, 2007; and Mr. Knudson filed a Form 4 report on February 12, 2007 reporting a transaction occurring on February 5, 2007.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis addresses our compensation policies and decisions for fiscal 2007 and the first part of fiscal 2008 prior to the date of this proxy statement for the five executive officers

Table of Contents

listed below in the Summary Compensation Table. Throughout this proxy statement, we refer to these five executive officers as our named executive officers.

Our Compensation Objectives

Our objective in establishing compensation arrangements for our executive officers is to attract and retain key executives who are important to our continued success through competitive compensation arrangements but at a reasonable cost to Criticare given our financial resources. Where appropriate, we also provide financial incentives for performance in specific areas of responsibility for an executive officer.

Competitive Compensation. We have not established compensation levels based on benchmarking, and have not conducted formal compensation surveys to determine the compensation of our executive officers. While we have not engaged external compensation consultants, management does regularly evaluate, on an informal basis, the competitiveness of the compensation for our executive officers with reference to similarly-sized companies in our industry and in market area in Southeastern Wisconsin. Management frequently receives information regarding compensation at such companies through the receipt of resumes from job applicants employed at such companies and from other sources. Based on such information regarding pay practices at other companies, we believe our compensation practices are competitive in the marketplace.

Reasonable Cost. We also believe that we achieve our compensation objectives at a reasonable cost to our company and stockholders. Prior to fiscal 2006, we experienced a number of years of losses and our management was focused on developing and implementing initiatives to grow our business. In these circumstances, management and our Board of Directors and Compensation Committee looked to limit compensation costs to the extent feasible consistent with our objectives of retention and performance. Although we achieved profitability in both fiscal 2006 and fiscal 2007, we continue to believe that executive compensation should come at a reasonable cost to our company and stockholders.

Our Compensation Process

Compensation for our executive officers and other senior managers is reviewed and evaluated by the Compensation Committee of our Board of Directors. The Compensation Committee then makes recommendations to the Board for its final approval. Our Compensation Committee currently consists of three independent directors under the applicable standards of the American Stock Exchange. Dr. Higgins D. Bailey is currently the Chairman of our Compensation Committee and the other members of the Compensation Committee are Jeffrey T. Barnes and William M. Moore. Additional information regarding our Compensation Committee is disclosed above under Directors Meetings and Committees Compensation Committee above.

Our Compensation Committee views compensation as an ongoing process, and meets regularly throughout the year for purposes of planning and evaluation. The Compensation Committee held two meetings during fiscal 2007. The Compensation Committee receives and reviews materials in advance of each meeting, including materials that management believes will be helpful to the Committee and well as materials specifically requested by members of the Committee.

Our management plays a significant role in assisting the Compensation Committee in its oversight of compensation. Management's role includes assisting the Compensation Committee with evaluating employee performance, establishing individual performance targets and objectives, recommending salary levels and option and other equity incentive grants, and providing financial data on company performance, calculations and reports on achievement of performance objectives, and other information requested by the Committee. Our Chief Executive Officer works with the Compensation Committee in making recommendations regarding our overall compensation policies and plans as

well as specific compensation levels for our executive officers and other key employees, other than the Chief Executive Officer. Members of management who were present during Compensation Committee meetings in fiscal 2007 and 2008 included the Chief Executive Officer and the Chief Financial Officer. The Compensation Committee makes all decisions regarding the compensation of the Chief Executive Officer without the Chief Executive Officer or any other member of management present.

Table of Contents

The Compensation Committee's charter requires that we provide the Committee with adequate funding to engage any compensation consultants or other advisers the Committee wishes to engage. During fiscal 2007 and 2008 to date, the Compensation Committee did not engage any consultants to assist it in reviewing our compensation practices and levels.

Components of Executive Compensation

For executive officers, the primary components of total compensation continue to be base salary, commissions, bonuses and long-term incentive compensation in the form of stock options.

Base Salary. Base salary is a key component of executive compensation. In determining base salaries, the Compensation Committee considers the executive officer's qualifications and experience, the executive officer's responsibilities, the executive officer's past performance, and the executive officer's goals and objectives.

Our Compensation Committee reviews base salaries on a periodic (although not necessarily annual) basis. Generally, changes in base salaries for our named executive officers (other than our Chief Executive Officer) are considered by the Compensation Committee at the initiative of our Chief Executive Officer. Given our limited financial resources and our focus on returning Criticare to profitability, increases in the base salaries of our executive officers have generally been modest in recent years:

The base salary of Emil Soika, our Chief Executive Officer, in fiscal 2007 of \$262,000 has increased by \$37,000 over his base salary of \$225,000 in fiscal 2002, an increase of 16% over a period of six years.

The base salary of Drew M. Diaz, our Vice President-Worldwide Sales, has remained at \$110,000 per year since fiscal 2002 and the base salary of Deborah A. Zane, our Vice President-Marketing and Business Development, has increased by \$10,000 (8%) from \$120,000 in fiscal 2002 to \$130,000 in fiscal 2007. As described below under Performance-Based Commissions and Bonuses, a significant portion of the compensation to Mr. Diaz and Ms. Zane is based on sales commissions.

The base salary of Joseph P. Lester, our Vice President and General Manager, has increased by \$6,000 (4%) from \$140,000 in fiscal 2003 to \$146,000 in fiscal 2007. Mr. Lester also receives commissions and a performance-based bonus.

The base salary level of Joel D. Knudson, our Vice President-Finance, has increased by \$40,000 (36%) from \$110,000 in fiscal 2005 to \$150,000 in fiscal 2007. Mr. Knudson was promoted to his position in fiscal 2005, which has involved a significant increase in his responsibilities.

There were no changes in the base salary levels of our named executive officers during fiscal 2007, other than Mr. Knudson who received an increase from \$140,000 to \$150,000.

Performance-Based Commissions and Bonuses. Three of our named executive officers, Drew M. Diaz, Deborah A. Zane and Joseph P. Lester, receive sales commissions in addition to a fixed base salary. Joseph P. Lester also receives an annual bonus based upon manufacturing cost-savings achieved for specific product programs.