

CRITICARE SYSTEMS INC /DE/  
Form SC 13D/A  
April 07, 2006

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Schedule 13D**

Under the Securities Exchange Act of 1934  
(Amendment No. 5)

Criticare Systems, Inc.  
(Name of Issuer)

Common Stock  
(Title of Class of Securities)

226901106  
(CUSIP Number)

Scott A. Shuda  
BlueLine Partners, LLC  
4115 Blackhawk Plaza Circle, Suite 100  
Danville, California 94506

(Name, Address and Telephone Number of Person  
Authorized to Receive Notices and Communications)

Copy to:

James C. Creigh  
Blackwell Sanders Peper Martin LLP  
1620 Dodge Street, Suite 2100  
Omaha, Nebraska 68102  
(402) 964-5000

March 28, 2006  
(Date of Event which Requires Filing  
of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), Rule 13d-1(f) or Rule 13d-1(g), check the following box [ ].

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CUSIP No. 226901106 -  
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1 NAME OF REPORTING PERSON/  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (entities only)  
BlueLine Catalyst Fund VII, L.P.

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2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See  
Instructions) (a) [ ]  
(b) [ X ]

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3 SEC USE ONLY

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4 SOURCE OF FUNDS (See Instructions)  
WC

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5 CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO  
ITEMS 2(d) or 2(e) [ ]

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6 CITIZENSHIP OR PLACE OF ORGANIZATION  
Delaware

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	-	<b>7</b>	SOLE VOTING POWER
	-		0
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	-	<b>8</b>	SHARED VOTING POWER
	-		451,300
	-	<b>9</b>	SOLE DISPOSITIVE POWER
	-		0
	-	<b>10</b>	SHARED DISPOSITIVE POWER
	-		451,300

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11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
1,153,300

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12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN  
SHARES [ ]  
(See Instructions)

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13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
9.6%

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14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)  
PN

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CUSIP No. 226901106 -

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1 NAME OF REPORTING PERSON/  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (entities only)  
BlueLine Partners, L.L.C.

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2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) [ ] (b) [ X ]

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3 SEC USE ONLY

---

4 SOURCE OF FUNDS (See Instructions)  
WC

---

5 CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) [ ]

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6 CITIZENSHIP OR PLACE OF ORGANIZATION  
California

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	-	<b>7</b>	SOLE VOTING POWER
	-		0
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	-	<b>8</b>	SHARED VOTING POWER
	-		451,300
	-	<b>9</b>	SOLE DISPOSITIVE POWER
	-		0
	-	<b>10</b>	SHARED DISPOSITIVE POWER
	-		451,300

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12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES [ ]  
(See Instructions)

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13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
9.6%

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14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)  
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CUSIP No. 226901106 -  
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1 NAME OF REPORTING PERSON/  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (entities only)  
BlueLine Capital Partners, L.P.

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2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) [ ] (b) [ X ]

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3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)  
WC

5 CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO  
ITEMS 2(d) or 2(e) [ ]

6 CITIZENSHIP OR PLACE OF ORGANIZATION  
Delaware

	-	<b>7</b>	SOLE VOTING POWER
	-		0
NUMBER OF	-	<b>8</b>	SHARED VOTING POWER
SHARES	-		702,000
BENEFICIALLY	-	<b>9</b>	SOLE DISPOSITIVE POWER
OWNED BY EACH	-		0
REPORTING	-	<b>10</b>	SHARED DISPOSITIVE POWER
PERSON	-		702,000
WITH	-		

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
1,153,300

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN  
SHARES [ ]  
(See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
9.6%

14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)  
PN

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CUSIP No. 226901106 -  
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1 NAME OF REPORTING PERSON/  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (entities only)  
BlueLine Partners, L.L.C.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See  
Instructions) (a) [ ]  
(b) [ X ]

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

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WC

<b>5</b>	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) [ ]
<b>6</b>	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware
	- <b>7</b> SOLE VOTING POWER 0
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	- <b>8</b> SHARED VOTING POWER 702,000
	- <b>9</b> SOLE DISPOSITIVE POWER 0
	- <b>10</b> SHARED DISPOSITIVE POWER 702,000
<b>11</b>	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,153,300
<b>12</b>	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES [ ] (See Instructions)
<b>13</b>	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 9.6%
<b>14</b>	TYPE OF REPORTING PERSON (SEE INSTRUCTIONS) OO

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This Amendment No. 5 (this "Amendment") amends and supplements the previous statements on Schedule 13D and 13D/A filed by BlueLine Catalyst Fund VII, L.P. ("BlueLine Catalyst"), BlueLine Partners, L.L.C., a California limited liability company and the sole general Partner of BlueLine Catalyst ("BlueLine California"), BlueLine Capital Partners, L.P ("BCP") and BlueLine Partners, L.L.C., a Delaware limited liability company and the sole general Partner of BCP ("BlueLine Partners" and, together with BlueLine Catalyst, BlueLine California and BCP, sometimes referred to herein as "BlueLine") relating to the common stock (the "Common Stock") of Criticare Systems, Inc. (the "Company"). Items designated as "no change" indicate that the information previously included in prior Schedule 13D/A remains current as of the date of this Amendment.

**Item 1. Security and Issuer**

No change.

**Item 2. Identity and Background**

No change.

**Item 3. Source and Amount of Funds**

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Item 3 is hereby amended and restated to read as follows:

As of the date hereof, the Reporting Entities may, in the aggregate, be deemed to beneficially own 1,153,300 shares of Common Stock (the "Shares"). The Shares were purchased by BlueLine Catalyst and BCP in the open market with their investment capital.

### **Item 4. Purpose of the Transaction**

Item 4 is hereby amended to include the following:

BlueLine invests in companies it believes are undervalued relative to their potential. As part of each investment, BlueLine seeks to work with management and the board of directors to address and correct areas of weakness and thereby work to increase shareholder value. In this investment, BlueLine observed a company possessing significant potential, but suffering from a long history of poor management and execution.

After nearly two years of efforts to work with management and the board of directors to effect necessary reforms, the Reporting Entities have come to believe that the Company will never achieve its potential under the current leadership. The Reporting Entities have therefore concluded that the best path to creating additional shareholder value is to seek a buyer for the Company.

Over the last year, the Company has launched three major product initiatives with tremendous individual and combined potential. These are: (i) the MRI product developed in collaboration with Medrad; (ii) the new portable cardiac monitor introduced after the termination of the Alaris OEM relationship; and (iii) discussions with at least three entities over major new OEM relationships relating to the Company's respiratory gas monitoring system.

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The Reporting Entities believe that investor understanding of the potential of these initiatives is responsible for the increase in the Company's share price from April 2005 to July 2005. Since then, the Company's stock has held in the \$5.00 per share range as investors await news of the Company's progress and execution against these opportunities.

In their Amendment No. 4 to Schedule 13D filed on February 16 2006, the Reporting Entities, among other things, wrote:

"The Company's management has been promoting its product initiatives and new OEM relationships for some time. Investors are growing impatient with promises of future performance and the Company's management must begin delivering against the expectations that it has set."

Management's reaction to this challenge has not been encouraging. First, there has been a continuation of a long pattern of insider stock option exercise-and-sell transactions. Despite their long tenure and the hundreds of thousands of option shares granted to management, management's combined ownership in the Company remains negligible. BlueLine communicated its concern over this issue to the Company's board of directors in a November 2005 letter, a copy of which is filed as Exhibit C hereto. Since receiving BlueLine's letter, members of the Company's board of directors have joined the selling, with two directors exercising options and selling all of their shares. BlueLine believes that sustained selling by the Company's chairman and its chief executive officer in March 2006 contributed to a share price decline from which the Company's stock has not recovered as of the date of this filing. Second, the Company announced on March 17, 2006, that it had doubled board member compensation and

amended its bylaws to deny shareholders the possibility of filling vacant board seats, both actions that might be described as seeking to entrench management.

Ultimately, it is the across-the-board selling by the Company's leadership that has focused BlueLine's attention. While other shareholders await news on the progress of the three initiatives listed above, Company insiders have, via their selling, signaled a lack of confidence in their ability to execute against the current opportunities. If management proves unable to deliver significant value, the three current initiatives will join a long list of prior projects where management failed to deliver on the potential originally described. That list would include: (i) the Black Sea joint-venture; (ii) offshore manufacturing relationships that coincided with a \$1.7 million inventory write-down; (iii) efforts to develop and sell veterinary products, (iv) plans to vertically expand operations via the acquisition of certain customers of the Company; and (v) the nearly two year old receivable that has remained unpaid by the government of Mexico. Even without being forced to write-off the Mexico receivable, the Company has missed analyst estimates in each of the last three quarters.

Given its experience with the Company, BlueLine believes shareholders would be better served and receive greater value by finding a buyer for the Company now, while the current initiatives retain significant potential, than would be the case if management is allowed to continue its efforts - particularly since those efforts lately seem more focused on finding new ways to compensate insiders than on pursuing value for shareholders. Over the last year, the Company has made four mandated filings describing increases to insider compensation packages while filing only three press releases relating to product developments. During the same period,

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insiders have made twenty filings relating to their sale of 386,075 shares, an amount equal to 3.2% of the Company's current capitalization, with the most recent sale at \$4.63.

The Reporting Entities will consider all options available to them including making proposals relating to: (a) the acquisition of additional securities of the Company, or the disposition of securities of the Company; (b) an extraordinary corporate transaction, such as a merger, reorganization or liquidation, involving the Company or any of its subsidiaries; (c) a sale or transfer of a material amount of assets of the Company or any of its subsidiaries, (d); other material changes in the Company's business or corporate structure; (e) changes in the present board of directors and/or management of the Company, including plans or proposals to change the number or term of directors; (f) changes in the Company's charter or bylaws to remove provisions which may impede the acquisition of control of the Company by any person; or (g) any action similar to any of those enumerated above.

**Item 5. Interest in Securities of the Issuer**

Item 5 is hereby amended and restated to read as follows:

- (a) As of the date of this Amendment, each of the Reporting Entities may be deemed to own 1,153,300 shares of Common Stock. The Shares represent approximately 9.6% of the shares of Common Stock outstanding based on 12,062,268 shares of the Company's Common Stock outstanding as reported in the Company's report on Form 10-Q for the Company's fiscal quarter ended December 31, 2005 as filed with the Securities and Exchange Commission on February 9, 2006.

The Reporting Entities are making this single, joint filing because they

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may be deemed to constitute a "group" within the meaning of Section 13(d)(3) of the Act. Each Reporting Entity expressly disclaims beneficial ownership of any of the shares of Common Stock other than those reported herein as being owned by it.

- (b) As of the date of this Amendment No. 5 to Schedule 13D: (i) BlueLine Catalyst beneficially owns 451,300 shares of Common Stock with which BlueLine Catalyst has shared voting power and shared dispositive power with the other Reporting Entities; (ii) BlueLine California beneficially owns 451,300 shares of Common Stock with which BlueLine California has shared voting power and shared dispositive power with the other Reporting Entities; (iii) BCP beneficially owns 702,000 shares of Common Stock with which BCP has shared voting power and shared dispositive power with the other Reporting Entities; and (iv) BlueLine Partners beneficially owns 702,000 shares of Common Stock with which BlueLine Partners has shared voting power and shared dispositive power with the other Reporting Entities.
- (c) Information concerning transactions in the Common Stock effected by the Reporting Entities during the past sixty days is set forth in Exhibit B hereto and is incorporated by this reference. All of the transactions set forth in Exhibit B were open market transactions for cash.

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- (d) No person (other than the Reporting Entities) is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the Shares.
- (e) Not applicable.

**Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer**

No change.

**Item 7. Materials to be Filed as Exhibits**

1. Exhibit A - Joint Filing Agreement dated September 28, 2005, signed by each of the Reporting Entities.\*
2. Exhibit B - Transactions in the Common Stock by the Reporting Entities during the past 60 days.
3. Exhibit C - Letter dated November 9, 2005 from BlueLine Partners to Higgins D. Bailey, Ed.D., Chairman of the Board of Directors of the Company.

\* Incorporated by reference to the Amendment No. 2 Schedule 13D filed on September 28, 2005.

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**SIGNATURES**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and



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correct.

Date: March 6, 2006

BlueLine Catalyst Fund VII, L.P.

By: BlueLine Partners, L.L.C.  
Its: General Partner

By: /s/ Scott Shuda  
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Name: Scott Shuda  
Title: Manager

BlueLine Partners, L.L.C.

By: /s/ Scott Shuda  
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Name: Scott Shuda  
Title: Manager

BlueLine Capital Partners, L.P.

By: BlueLine Partners, L.L.C.  
Its: General Partner

By: /s/ Scott Shuda  
-----

Name: Scott Shuda  
Title: Manager

BlueLine Partners, L.L.C.

By: /s/ Scott Shuda  
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Name: Scott Shuda  
Title: Manager

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EXHIBIT B

Transactions in the Common Stock effected by the Reporting Entities during the past sixty days.

Date	BCP		BlueLine Catalyst	
	No. of Shares	Price per Share	No. of Shares	Price per Share
2/6/2006			-6,000	\$5.11
2/7/2006			-206,500	\$5.30
2/9/2006	4,000	\$4.88		
2/13/2006	5,000	\$4.80		
2/22/2006			-1,500	\$5.05

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2/24/2006			-3,000	\$5.10
3/3/2006	2,000	\$4.96		
3/7/2006	1,000	\$4.90		
3/8/2006	1,000	\$4.90		
3/10/2006	3,000	\$4.67		
3/13/2006	1,000	\$4.61		
3/17/2006			6,000	\$4.62
3/20/2006	400	\$4.60		
3/21/2006	2,400	\$4.67		
3/28/2006	8,000	\$4.64		
3/29/2006	9,900	\$4.64		
3/30/2006	33,400	\$4.65		
3/31/2006	30,500	\$4.55		
4/3/2006	84,600	\$4.54		

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EXHIBIT C

**BlueLine Partners**  
**4115 Blackhawk Plaza Circle, Suite 100**  
**Danville, CA 94506**  
**(925) 648-2085**

November 9, 2005

Higgins D. Bailey, Ed.D.  
Chairman of the Board of Directors  
Criticare Systems, Inc.  
20925 Crossroads Circle  
Waukesha, WI 53186

RE: No Vote on Criticare Option Plan

Dear Mr. Bailey:

Included within the business to be conducted at Criticare's Annual Meeting of Stockholders on December 1, 2005 is consideration of a proposal to amend the company's 2003 Stock Option Plan to increase the number of shares of common stock available for future grants by 500,000 shares. BlueLine will vote no on this proposal for the reasons outlined below.

**(1) Additional Grants Would Not Advance the Purpose of Option Plans**

The purpose of employee stock option plans is to align management interests with those of the company's stockholders by making their compensation, at least in part, tied to the future stock market performance of the company's shares. BlueLine does not believe that this objective has been met at Criticare. Despite years of generous grants, we do not believe the members of management are acting like stockholders.

A good example occurred very recently. During the September 14, 2005 conference call with investors, Criticare's CEO discussed several encouraging developments including the expected recovery of the former Alaris revenue, additional OEM revenue from Medrad and as many as three large OEM gas bench orders. It is disturbing, however, that on the same day selected by the CEO to

give investors reasons why they should consider buying the stock, the CEO and four other senior executives began executing and immediately selling 175,000 option shares. These shares represented almost 1.5% of the company's entire capitalization and a large percentage of management's holdings.

As he has done before, Criticare's CEO explained that sellers lacked the personal funds to buy and hold the option shares. While this may be true in individual cases, it seems unlikely to be a uniform condition across the entire management team. Further, it was possible for each seller to only sell that portion of the shares necessary to cover the exercise price, but none chose this course. In any case, the contemporaneous timing of the CEO's message to stockholders and the insider selling could not have been worse from the perspective of attempting to justify the purpose of Criticare's stock option plan.

**(2) Management Has Already Been Granted Sufficient Options**

The September 2005 sales were only the latest in a long series of sales by Criticare's management, including more than 100,000 shares exercised and sold during fiscal year 2004. Even after this significant selling, the company's recent proxy filing indicates that just the company's five most highly paid employees still hold options exercisable for 604,000 shares, an amount exceeding 5% of the company's current capitalization. This is in addition to receiving salaries at the high-end of the range for similarly situated companies even before the increases in base salaries for three of the five named executives announced by the company on September 1, 2005. Criticare even pays its CEO to attend board meetings - a highly unusual practice, but just another of the many perks disclosed in the proxy.

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BlueLine believes managers should be rewarded via competitive salaries and stock option grants that reward stock market success. At Criticare, both are already present in more than sufficient amounts and no additional options grants seem necessary to appropriately incent the management team.

**(3) The Requested Increase is Too Large**

Adding 500,000 shares to the pool of more than 1.1 million shares granted or reserved under existing plans would take the option plans to more than 13% of the company's current capitalization. While this is a normal level for a startup, it is well beyond what is appropriate for a company founded in 1984 and public since 1987. Add to this the fact that the company has no plans for significant new hires, and there seems no justification for such a large increase in the option pool.

An argument that the company should have available sufficient shares to satisfy any potential future need would be defeated by (i) public company rules permitting boards of directors to create special purpose plans should the need ever arise and (ii) the availability of so many shares in the plan would enable (and thereby all but guarantee) large new and unnecessary grants being made to current management.

BlueLine supports the use of stock option plans to incentivize employees and we almost always vote in support of such plans. In this case, however, BlueLine believes it very unlikely that the option share increase would be used to advance the interests of stockholders. For that reason, BlueLine will vote no on the proposal to amend the company's 2003 Stock Option Plan to increase the number of shares.

Very Truly Yours,

/s/ William M. Moore

William M. Moore