CAS MEDICAL SYSTEMS INC
Form 10KSB
March 31, 2005

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

FORM 10-KSB

Annual Report under Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the Fiscal Year ended December 31, 2004

Commission File Number 0-13839

CAS MEDICAL SYSTEMS, INC.
(Name of small business issuer in its charter)

Delaware	06-1123096
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

44 East Industrial Road, Branford, Connecticut 06405
(Address of principal executive offices)

(203) 488-6056
(Issuer's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $.004 par value
(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [_]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [X]

The Registrant's revenues for the fiscal year ended December 31, 2004 were $19,922,042.

The aggregate market value of common equity held by non-affiliates of the Registrant as of March 15, 2005 based upon the last sale price of such stock on that date on the OTC Bulletin Board was $22,415,882. The number of shares of the Registrant's Common Stock outstanding as of March 15, 2005 was 9,873,173.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on June 15, 2005 are incorporated by reference in Part III of this Report. Except as expressly incorporated by reference, the Registrant's Proxy Statement shall not be deemed to be part of this Form 10-KSB.

Transitional Small Business Disclosure format (check one): Yes [_] No [X]

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PART I

This report may contain information that includes or is based on forward-looking statements within the meaning of the federal securities laws that are subject to risks and uncertainties. These statements may be identified by the use of words such as "anticipates," "expects," "estimates," "projects," "intends" and "believes" and variations thereof and other terms of similar meaning. Factors that could cause the Company's actual results and financial condition to differ from the Company's expectations include, but are not limited to: price and product competition; rapid technological changes; dependence on new product development; the mix of products sold; supply and prices of raw materials and products; customer demand for the Company's products; regulatory actions; changes in reimbursement levels from third-party payors; product liability claims; changes in economic conditions that adversely affect the level of demand for the Company's products; changes in foreign exchange markets; changes in financial markets; and changes in the competitive environment. While the Company believes that the assumptions underlying such forward-looking statements are reasonable, there can be no assurance that future events or developments will not cause such statements to be inaccurate. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

Item 1. Description of Business

The Company

CAS Medical Systems, Inc. ("CAS" or the "Company") is a Delaware corporation that was organized in 1984. The Company designs, manufactures and markets medical products, specifically blood pressure measurement technology, vital signs measurement equipment, cardio-respiratory monitoring equipment and supplies for neonatal intensive care. The Company's products are designed to improve the quality of patient care and provide exceptional value and performance. The Company has several other products in various stages of development that it believes will add to and complement its current product lines.

Principal Products and Services

Blood Pressure Measurement Technology

The Company has developed a proprietary non-invasive blood pressure technology,

MAXNIBP(R). The Company believes this technology is more accurate, reliable, and able to produce a measurement result faster than its competitors. These advantages strengthen the Company's competitive position, especially in clinical situations where measurements can be difficult. The Company has entered into original equipment manufacturer ("OEM") agreements to supply its MAXNIBP technology in the form of modules to various companies throughout the world. These modules are used in larger monitoring systems where non-invasive blood pressure is but one measurement parameter. The Company's OEM agreements are typically multi-year arrangements.

Vital Signs Monitoring Equipment

The Company offers two platforms of vital signs monitors incorporating various combinations of measurement parameters. The product lines include options for measurement of non-invasive blood pressure using the Company's proprietary MAXNIBP technology, pulse oximetry, electro-cardiography, temperature, and capnography. CAS monitors are ideal for a range of clinical settings (both human and animal) including emergency medical service, medical/surgical units, out-patient care, and procedural sedation. The Company also offers a full line of disposable and reusable blood pressure cuffs to complement its monitors.

Cardio-Respiratory Monitoring Equipment

The CAS line of cardio-respiratory monitors is used to monitor apnea in home-based and hospital settings. The Company's product line includes two of the industry's best selling infant apnea monitoring products and has the broadest range of product capabilities available. The AMI(R) and 511 monitors allow cardio-respiratory and pulse oximetry monitoring and recording for a range of patients. Proprietary CAS EXPRESS(R) software saves patient data from the monitors and generates reports for review by the clinician.

Supplies for Neonatal Intensive Care

The Company's specialty neonatal supplies are a foundation of its business. CAS has a long record of setting the industry standard for high quality products designed specifically to meet the unique needs of neonatal intensive care. The varied product line includes Klear-Trace(R) ECG Electrodes, NeoGuard(R) skin temperature probes and adhesive reflectors, Pedisphyg(R) neonatal blood pressure cuffs, BiliBottoms(TM) light permeable diapers for use during phototherapy, and the Premie Nestie(R) neonatal positioning device.

Sales and Marketing

The Company markets its products throughout North America, through hospital, alternate site, homecare, veterinarian and emergency medical distribution channels.

Domestic sales are conducted by nineteen specialty distributors working under exclusive arrangements in conjunction with nine full time Company field managers. International sales are conducted through exclusive distributors in the European, Pacific Rim and Latin American regions and Canada working together with regional sales consultants and one employee located outside of the United States.

The Company also sells its non-invasive blood pressure technology, in the form of sub-assemblies to be joined to multi-parameter hospital monitors, to various

firms operating on both a domestic and international basis. The Company is in the process of pursuing other OEM agreements.

Financial Information Relating to Sales

	Year Ended December 31		
	2004	2003	2002
Domestic Sales	$ 15,451,972	$ 13,328,720	$ 12,406,418
Export Sales	4,470,070	3,520,758	2,618,573
	$ 19,922,042	$ 16,849,478	$ 15,024,991

Competition

The Company competes in the medical equipment market where there are many suppliers with greater financial and personnel resources that sell a broad line of commodity products and have a dedicated selling capability. The Company's products are targeted primarily to the neonatal and pediatric intensive care units segment of the hospital market. The Company has been supplying competitively priced, uniquely designed products responsive to this segment in which no major company currently focuses substantial resources.

In both the hospital and emergency medical service markets, the Company's line of non-invasive blood pressure and apnea monitoring equipment competes with other monitoring products. The Company's equipment is compact, portable, lightweight and user-friendly. The monitors maintain a high, professional standard of accuracy and quality in demanding environments such as those encountered in hospital and transport situations.

With respect to all of its products, the Company competes on the basis of price, features, product quality and promptness of delivery and overall quality of customer service.

Customers

During 2004, 2003 and 2002 the Company had sales to one customer which in the aggregate accounted for approximately 18%, 18% and 20% of net sales, respectively.

Research and Development

During 2004 and 2003, the Company incurred expenses of approximately $1,554,000 and $1,301,000, respectively, on activities relating to research, the development of new products and the improvement of existing products. These amounts are before consideration of reimbursements received from the National Institutes of Health ("NIH") further explained under Grant Awards below. Net research and development ("R&D") expenses after reimbursements from the NIH approximated $1,032,000 for 2004 and $929,000 for 2003.

The Company's 2004 development efforts focused on continued support of the 740 series of vital signs monitors and accessories; the design and development of the new Model 750 series cardio-respiratory vital signs monitors; advancements in OEM non-invasive blood pressure technology including a new low cost module; apnea product development and neonatal product support.

The Company's 2004 research efforts were centered on the expansion of its patented Near-Infrared Spectroscopy ("NIRS") technology that can non-invasively measure brain oxygenation levels. Each year, there are over 50,000 cardiac and carotid surgeries performed in the United States. Following these procedures, approximately one in sixteen patients (six percent) experience severe adverse cerebral outcomes. Additionally, 500,000 people in the United States undergo high risk surgery with similar risks. The brain is a particular source of concern due to the fact that it consumes oxygen quickly and has an extremely low tolerance to low oxygen levels compared to other areas of the body. As a result, the Company believes that monitoring brain oxygenation via cerebral oximetry is a vital new tool for improving surgical outcomes as described above.

During 2004, clinical sites were expanded to include two adult and two neonatal sites. Clinical studies to date, have shown significant promise and have led to the Company's decision to aggressively pursue the development of a commercial product in the emerging market of cerebral oximetry. The Company has several patents pending on the technology and intends to actively seek additional patent protection.

The Company continues to develop and expand its patient monitoring capabilities by adding new complimentary physiological parameters. This will enable the Company to attempt to increase sales penetration into key markets for the Company's products.

Grant Awards

The Company has been awarded various grants by the National Institute of Neurological Disorders and Stroke of the NIH under its Small Business Innovative Research Program. Grants under this program are being used to support its NIRS development. In accordance with the terms of these grants, the Company is being reimbursed for certain qualifying expenditures. Such grant awards are providing substantial support for the Company's clinical efforts which are being undertaken at multiple adult and neonatal sites.

The Company has received various grants under this program including a phase II award received during May 2004 approximating $1,000,000 for continued development in the adult population. Other NIRS related awards include two $100,000 grants received during 2003 and a $836,000 grant received during 2000 for development in the area of neonatal application of NIRS.

During March 2004, the Company was awarded a $100,000 grant for developing a new generation of automated non-invasive blood pressure ("NIBP") monitors, which have incorporated advanced NIBP algorithms that compensate for arterial stiffness.

Reimbursements were approximately $522,000 for 2004 and $372,000 for 2003. Funding provided to the Company is being recorded as a reduction in R&D expenses. The Company is pursuing additional NIH grants to support its NIRS research.

Employees

As of December 31, 2004, the Company had 93 employees, of which 91 were full-time. The Company has no collective bargaining agreements and believes that relations with its employees are good.

Government Regulation

Medical products of the type currently being marketed and under development by the Company are subject to regulation under the Food, Drug and Cosmetic Act (the "FDC Act") and numerous acts and amendments such as the Quality System Regulations ("QSR") which replaced the regulations formerly called Good Manufacturing Practices ("GMP's").

In addition, depending upon product type, the Company must also comply with those regulations governing the Conduct of Human Investigations, Pre-Market Approval Regulations and other requirements, as promulgated by the Food and Drug Administration ("FDA"). The FDA is authorized to inspect a device, its labeling and advertising, and the facilities in which it is manufactured in order to ensure that the device is not manufactured or labeled in a manner which could cause it to be injurious to health.

The FDA has adopted regulations which classify medical devices based upon the degree of regulation believed necessary to assure safety and efficacy. A device is classified as a Class I, II, or III device. Class I devices are subject only to general controls. Class II devices, in addition to general controls, are or will be subject to "performance standards." Most devices are also subject to the 510(k) pre-market notification provision. In addition, some Class III devices require FDA pre-market approval before they may be marketed commercially because their safety and effectiveness cannot be assured by the general controls and performance standards of Class I or II devices.

The Company's products are primarily Class I and II devices and several of them have required FDA notification under Section 510(k) of the FDC Act.

The FDA has the authority to, among other things, deny marketing approval until all regulatory protocols are deemed acceptable, halt the shipment of defective products, and seize defective products sold to customers. Adverse publicity from the FDA, if any, could have a negative impact upon sales. The FDA completed a factory audit of the Company in March 2002. There were no material non-conformities.

Manufacturing and Quality Assurance

The Company assembles its products at its facilities in Branford, Connecticut. The various components for the products, which include plastic sheeting, plastic moldings, wire, semi-conductor circuits, electronic and pneumatic components and power supplies, are obtained from outside vendors. The Company does not have any long-term contracts with its suppliers and believes that needed components are available from alternative sources if needed. While the Company has not experienced any sustained interruption in production or the supply of components and does not anticipate any difficulties in obtaining the components necessary to manufacture its products, there can be no assurance that the Company will continue to receive its components as needed and would be able to readily find alternative sources.

Quality control procedures are performed by the Company at its facilities and occasionally at its suppliers' facilities to standards set forth in the FDA's "Quality System Regulations." These procedures include the inspection of components and full testing of finished goods. The Company has a controlled environment where the final assembly of single-patient-use products is conducted.

ISO 9001 and 13485

In September 1996, the quality system at CAS was certified to ISO 9001/EN 46001 by the accredited body, BSI Inc. This certification recognizes CAS for its achievement in implementing and maintaining a world-class quality system and prepares CAS for the use of the "CE" mark. The CE mark is now required for medical devices to gain access to the European Union common market. The FDA, recognizing the value of a universally accepted quality system, has patterned its Quality System Regulations after ISO 9001 and ISO 13485. CAS maintains full compliance with the FDA Quality System Regulations. In 2003, CAS became certified to another universal Quality System Standard, ISO 13485, meeting a requirement for sales in Canada, and in preparation for the termination of the 1994 version of ISO 9001 which ended August 31, 2003. CAS is upgrading its quality system to be compliant with the newest standard ISO 13485: 2003. Compliance is expected by December 2005.

Backlog

The Company's backlog includes orders pursuant to long-term OEM agreements as well as orders for products shippable on a current basis. Total backlog, therefore, is not a meaningful indicator of future sales. As of December 31, 2004, approximately $1,364,000 of total backlog was scheduled for shipment within the first quarter of 2005 as compared to $1,314,000 for the first quarter of the prior year.

Trademarks, Patents and Copyrights

Certificates of Registration have been issued to the Company by the United States Department of Commerce Patent and Trademark Office for the following marks: CAS(R), Pedisphyg(R), OscilloMate(R), NeoGuard(R), Tuff-Cuff(R), Limboard(R), Klear-Trace(R), Premie Nestie(R), MAXNIBP(R), and the heart shaped mark for use as a thermal reflector and the Company's corporate logo. The Company continues to use the Safe-Cuff(TM), BiliBottoms(TM) and CAS Express(TM) common law trademarks. The Company also holds trademarks for the Event-Link(R) monitoring system, the Edentec Assurance(R) monitor, Edentrend(R) software and the AMI(R) and AMI(R) Plus monitors.

The Company holds various patents for its blood pressure measurement technology which it believes provide it with a competitive market advantage. In addition, it has patents with respect to apnea monitor technology and its NIRS technology. Although the Company holds such patents and has patents pending related to certain of its products, it does not believe that its business as a whole is significantly dependent upon patent protection. However, the Company will continue to seek patents as it deems advisable to protect the market for its products and its R&D efforts.

The Company has copyright protection for the software used in its blood pressure and apnea monitors.

Item 2. Description of Property

The Company's corporate facilities in Branford, Connecticut are situated on approximately 4.6 acres and comprise 24,000 square feet of office, laboratory and manufacturing space designed and constructed for the Company in 1998 at a total cost of approximately $1.9 million. The Company relocated to this facility during November 1998 and is the sole occupant. During January 1999, the Company entered into a nineteen-year, $1,310,000 mortgage obligation. The payments are approximately $9,750 per month. The mortgage, as amended, is secured by a first mortgage lien on the property.

The Company is leasing approximately 5,700 square feet of office and limited warehouse space at an adjacent facility under a three-year agreement effective December 1, 2004. Minimum annual rental expense is approximately $37,000 excluding apportioned real estate taxes and certain utility costs. The Company expects to incur certain expenditures approximating $75,000 during 2005 to renovate the leased space to meet its requirements. The Company terminated a one-year agreement effective March 2005 for approximately 1,700 square feet of warehousing space at another adjacent location.

The Company believes that its premises are adequately insured.

Item 3. Legal Proceedings

No material legal proceedings involving the Company are pending at this time.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

The Common Stock of the Company is traded on the OTC Bulletin Board, under the symbol "CAMY.OB." The following table shows the high and low bid quotations for the Company's Common Stock during each quarterly period for the last two years. These prices reflect inter-dealer prices and may not represent actual transactions and do not include retail mark-ups, mark-downs or commissions.

Quarter Ended	High	Low
March 31, 2003	$ .60	$ .34
June 30, 2003	$ .85	$ .34
September 30, 2003	$ 1.40	$ .65
December 31, 2003	$ 1.48	$ .80
March 31, 2004	$ 1.62	$ 1.27
June 30, 2004	$ 1.67	$ 1.21
September 30, 2004	$ 1.51	$ 1.29
December 31, 2004	$ 2.95	$ 1.33

The following table sets forth the approximate number of holders of record of Common Stock of the Company on December 31, 2004.

Title of Class	Number of Shareholders
Common Stock, $.004 par value	264

No cash dividends have been declared on the Company's common stock during 2003 or 2004.

Item 6. Management's Discussion and Analysis of Financial Condition and Results

of Operations

Restatement

During the 2004 year-end closing, management determined that the Company had previously failed to apply the accounting standards of Financial Accounting Standards Board Statement No. 106, "Accounting for Post-Retirement Benefits Other than Pensions" to a post-retirement benefit plan (the "Plan"). The accompanying financial statements for the years ended December 31, 2003 and 2002 have been restated to correct this error. As further discussed in Item 8A of this filing, we have concluded that this failure constituted a material weakness in internal control.

Statement No. 106 requires the Company to estimate the total cost of providing post-retirement benefits and recognize that cost over the employees' service period. Prior to retroactively applying Statement No. 106, the Company recognized the benefit cost using the cash basis of accounting. The benefits are funded through the purchase of medical insurance for each retiree each year. The Company continues to fund the Plan on a "pay-as-you-go" basis.

The Plan became effective in January 2002 for qualifying employees who retire at age 65 or later and have provided ten continuous years of service to the Company. The Plan provides certain prescription drug and supplemental health benefits for Medicare qualified retirees of the Company.

In restating, benefit expenses of $270,000 and $264,000 have been recorded for 2003 and 2002, respectively. As a result, previously reported net income for 2003 of $737,000 or $0.07 per diluted common share has been restated to $561,000 or $0.05 per share. For 2002, a previously reported net loss of ($325,000) or ($0.03) per share has been restated to a net loss of ($497,000) or ($0.05) per share. Benefits paid in cash were $22,000 and $9,000 for 2003 and 2002, respectively.

The balance sheet as of December 31, 2004 includes a benefit liability under the Plan of $737,000. The Company has restated its balance sheet as of December 31, 2003 to reflect the accrued benefit liability as of that date of $535,000.

During February 2005, the Company initiated certain changes to the Plan to significantly reduce its future funding requirements. Effective September 1, 2005, participants under the Plan will be required to share the benefit costs, such contributions to be fifty percent of premiums. Other changes may also be made.

The following reflects the adjustments discussed above to previously reported unaudited quarterly results:

	Q 1	Q 2	Q 3	Q 4	TOTAL
2004					
NET INCOME:					
As reported	$ 249,269	$ 294,384	$ 416,691	$ 343,074	$1,303,418
Adjustment	(32,844)	(32,845)	(32,844)	--	(98,533)
As restated	$ 216,425	$ 261,539	$ 383,847	$ 343,074	$1,204,885
EARNINGS PER SHARE:					
Basic					

As reported	$ 0.03	$ 0.03	$ 0.04	$ 0.03	$ 0.13
Adjustment	(0.01)	--	--	--	(0.01)
As restated	$ 0.02	$ 0.03	$ 0.04	$ 0.03	$ 0.12
Diluted					
As reported	$ 0.02	$ 0.03	$ 0.04	$ 0.03	$ 0.13
Adjustment	--	(0.01)	(0.01)	--	(0.01)
As restated	$ 0.02	$ 0.02	$ 0.03	$ 0.03	$ 0.12

2003

Net income:					
As reported	$ 689,734	$ 94,610	$ (239,074)	$ 191,603	$ 736,873
Adjustment	(43,962)	(43,961)	(43,961)	(43,961)	(175,845)
As restated	$ 645,772	$ 50,649	$ (283,035)	$ 147,642	$ 561,028
EARNINGS PER SHARE:					
Basic					
As reported	$ 0.07	$ 0.01	$ (0.02)	$ 0.02	$ 0.08
Adjustment	--	--	(0.01)	--	(0.02)
As restated	$ 0.07	$ 0.01	$ (0.03)	$ 0.02	$ 0.06
Diluted					
As reported	$ 0.07	$ 0.01	$ (0.02)	$ 0.01	$ 0.07
Adjustment	--	--	(0.01)	--	(0.02)
As restated	$ 0.07	$ 0.01	$ (0.03)	$ 0.01	$ 0.05

2002

Net income:					
As reported	$ 50,576	$ (11,808)	$ (23,458)	$ (340,396)	$ (325,086)
Adjustment	(42,974)	(42,973)	(42,973)	(42,973)	(171,893)
As restated	$ 7,602	$ (54,781)	$ 66,431	$ (383,369)	$ (496,979)

EARNINGS PER SHARE:					
Basic					
As reported	$ 0.01	$ --	$ --	$ (0.04)	$ (0.03)
Adjustment	(0.01)	(0.01)	(0.01)	--	(0.02)
As restated	$ --	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.05)
Diluted					
As reported	$ --	$ --	$ --	$ (0.04)	$ (0.03)
Adjustment	--	(0.01)	(0.01)	--	(0.02)
As restated	$ --	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.05)

The discussion which follows reflects, as applicable, restated amounts for 2003 and 2002.

Results of Operations

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Net income for 2004 was $1,205,000 or $0.11 per common share on a diluted basis compared to $561,000 or $0.05 per common share for 2003. Net income for 2003 was positively affected by $500,000 or $0.05 per share from the proceeds of a life insurance policy paid upon the death of a former key employee of the Company during January 2003. Retirement benefit expenses were $202,000 for 2004 and $270,000 for 2003 (Benefits paid in the form of premiums were $27,000 and $22,000, respectively). Net income for 2004 was increased by income tax benefits of $91,000 or $0.01 per share related to research and development ("R&D") tax refunds, other tax credits and a change in estimate of prior year provisions. Net income for 2003 was affected by the reversal of income tax accruals resulting in an income tax benefit of $106,000 or $0.01 per share. Pre-tax income for 2003 was impacted by write downs of inventory of $417,000 related to the Company's older family of products which became obsolete during the year as a result of the success of the Company's newer product offerings. Improvements in gross profit as a percentage of sales and reductions in selling, general and administrative ("S,G&A") expenses as a percentage of sales contributed to the increase in operating income to $1,708,000 for 2004 compared to an operating loss of $8,000 in 2003.

Revenues for 2004 increased 18.2% or $3,073,000 to $19,922,000 from $16,849,000 for 2003. The growth in revenues was generated by a 33% increase in blood pressure product sales. Sales to domestic customers including the Department of Veterans Affairs ("VA") under the Company's multi-year contract, international sales in various worldwide markets, sales to the veterinary market under a private-label distribution arrangement, and sales to original equipment manufacturers ("OEM") were responsible for the increase.

Cost of products sold as a percentage of net revenues decreased to 54.4% for 2004 from 61.2% for the prior year. Reductions in cost of sales reflect product mix, lower purchase component costs, manufacturing efficiencies and lower write downs of inventory. Cost of products sold for the prior year include provision for inventory obsolescence, physical inventory and inventory valuation adjustments, and higher costs for warranty repairs. Cost of products sold for 2004 and 2003 include $151,000 and $214,000, respectively, of retirement benefit expenses. The Company is aggressively pursuing product cost reductions through improvements in manufacturing processes and inventory control, capital expenditures to replace aged equipment, adoption of company-wide quality initiatives, and increases in employee training and management personnel.

Research and development ("R&D") expenses increased $103,000 or 11.1% to $1,032,000 for 2004 from $929,000 for 2003. R&D expenses are reported net of reimbursements received from the National Institutes of Health ("NIH") primarily pertaining to the Company's development of its Near-Infrared Spectroscopy ("NIRS") technology. Amounts reimbursed from the NIH, including accruals, for 2004 and 2003 were $521,000 and $372,000, respectively. R&D expenses for 2004 and 2003 before reimbursement approximated 7.8% and 7.7% of revenues, respectively. R&D expenses before reimbursement reflected an increase of 19.4% for 2004 as compared to the prior year. Increased expenditures for engineering project materials and outside services were partially offset by increased reimbursements from the NIH.

Selling, General and Administrative (S,G&A) expenses increased $729,000 or 13.0% to $6,349,000 for 2004 from $5,620,000 for the prior year. Sales and marketing expenses increased 7.2% and were responsible for $257,000 of the overall increase in S, G & A expenses. Increased salaries and related benefits

pertaining to the Company's domestic field sales efforts and customer service support, advertising and promotions, travel and entertainment expenses, sales personnel recruitment costs, and international manufacturer representative costs were partially offset by decreased product sample expenses. General and administrative ("G&A") expenses increased 23% and accounted for $472,000 of the increase in S,G&A expenses. Increased salaries and related benefits including bonuses and Company-wide profit-sharing expenses were partially offset by reductions in legal fees and expenditures for travel and entertainment. S, G &A expenses included retirement benefit expenses of $51,000 and $56,000 for 2004 and 2003, respectively.

Interest expense decreased $60,000 or 45.2% to $72,000 for 2004 from $132,000 for the prior year. Lower levels of outstanding debt were responsible for the reduction in interest expense.

Income tax expense for 2004 was $430,000 compared to an income tax benefit of $201,000 for 2003. The provision for income taxes for 2004 represents an effective tax rate of approximately 35% offset by approximately $91,000 of income tax benefits resulting primarily from R&D tax refunds, other tax credits and a change in estimate of prior year provisions. The tax benefit for 2003 resulted from the reversal of certain tax accruals resulting in an income tax benefit of $106,000. Non-taxable income of $500,000 from a life insurance policy paid upon the death of one of the Company's key employees and R&D tax credits reduced the tax provision that would have been recorded by applying the statutory federal and state tax rates.

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

Net income for 2003 was $561,000 or $0.05 per common share on a diluted basis compared to a loss of $497,000 or $0.05 per share for 2002. Net income for 2003 was favorably effected by $500,000 ($0.05 per share) of proceeds from a life insurance policy paid upon the death of Dr. Myron Cohen, the Company's founder and Executive Vice-President. Net income was also favorably affected by the reversal of certain income tax accruals following the completion of a tax audit. This resulted in an income tax benefit of $106,000 ($0.01 per share) for 2003. Pre-tax income was adversely affected by $417,000 for inventory write downs due to the obsolescence of the Company's older family of products as a result of the success of the Company's newer product offerings. The pre-tax loss for the 2002 year included a $648,000 charge for unsaleable inventories.

Retirement benefit expenses were $270,000 for 2003 and $264,000 for 2002. Benefits paid in the form of premiums were $22,000 and $9,000, respectively.

Revenues for 2003 increased 12.1% to $16,849,000 from $15,025,000 for the prior year. The overall increase was primarily led by increases in vital signs monitoring sales of 92%, disposable products sales of 14% and OEM worldwide sales of 11%, which were partially offset by decreases in apnea product sales of 5% and anticipated reductions in certain service program revenues of 50%. Non-OEM related domestic sales increased 9.6% while non-OEM related international sales grew 59.6% over 2002 levels.

During 2003, the Company was awarded a five year contract from the Department of Veterans Affairs ("VA") to supply its vital signs monitors into VA medical centers and hospitals. In addition, the Company signed a distribution agreement with a leading national sales and rental company which provides equipment to acute, long-term and alternate care facilities. The Company is also securing additional distribution for its products within North America. It is also securing OEM customers worldwide for its proprietary non-invasive blood pressure technology.

Cost of products sold as a percentage of net revenues increased to 61.2% for

2003 compared to 60.7% for the prior year. Increases in warranty costs and increased inventory related adjustments including provision for obsolescence, physical inventory adjustments and inventory valuation, were primarily responsible for the overall increase in cost of sales for 2003 as compared to 2002. OPEB costs accounted for $214,000 and $182,000 of costs of product sold for 2003 and 2002, respectively. The Company is aggressively pursuing product cost reductions through improved materials procurement procedures, manufacturing process improvements, capital equipment expenditures, and improved inventory control.

Research & Development ("R&D") expenses for 2003 decreased 26.1%, or $328,000, to $929,000 from $1,257,000 for the prior year. The decrease was primarily the result of reduced salaries and fringe benefit costs from headcount reductions initiated during late 2002 and an increase in reimbursements from NIH grants. R&D expenses for 2003 and 2002 are net of approximately $372,000 and $284,000, respectively, of reimbursements from a Phase II Grant from the National Institutes of Health ("NIH") for the Company's continued R&D efforts on near-infrared spectroscopy ("NIRS") technology to non-invasively and continuously monitor brain oxygenation.

Selling, General and Administrative ("S,G&A") expenses increased $236,000 or 4.3% to $5,620,000 for 2003 from $5,384,000 for the prior year. The increase was primarily caused by higher sales commissions on increased revenues; fringe benefit costs; legal and accounting costs; and the full year impact of the Company's directors and officers liability insurance for 2003 as compared to two months of insurance coverage for 2002. Offsetting these costs were reductions in advertising and promotional expenses, and outside professional services, primarily independent domestic sales consultants. S,G&A expenses as a percentage of sales decreased to 33.4% for 2003 from 35.8% for 2002. OPEB expenses in S,G&A were $57,000 for 2003 and $82,000 for 2002.

Interest expense decreased by 46.3% or $114,000 to $132,000 in 2003 as a result of lower debt levels and reduced interest rates. During 2003, the Company refinanced both of its outstanding debt obligations with its bank lender to obtain more favorable interest rates.

The Company recorded an income tax benefit in 2003 of $201,000 as a result of the reversal of certain tax accruals approximating $150,000 due to the favorable outcome of a tax audit completed during 2003. Other factors which reduced the tax provision from that which would have been expected by applying the statutory rate of 34% to pre-tax income were $500,000 of non-taxable income from a life insurance policy paid upon the death of one of the Company's key employees, and R&D tax credits. The income tax benefit of $490,000 recorded for 2002 resulted from a pre-tax loss of $987,000 and differences of effective tax rate to statutory rate as a result of federal and state R&D tax credits.

Financial Condition, Liquidity and Capital Resources

The Company's cash and cash equivalents were $1,973,000 at December 31, 2004 compared to $881,000 at December 31, 2003. Working capital increased $948,000 to $6,106,000 at December 31, 2004 from $5,158,000 at December 31, 2003. The Company's current ratio improved to 4.0 to 1 from 3.4 to 1. The increase resulted from the improvement in earnings for 2004.

Cash provided by operations for 2004 was $2,689,000 compared to $1,689,000 for the prior year. The increase resulted from increased net income before depreciation and amortization, reductions in accounts receivable and increases in accounts payable and accrued expenses, which were partially offset by increases in inventories. Cash provided by operations for 2003 included $500,000

of income from non-taxable proceeds received during February 2003 from an insurance policy held by the Company on a former key employee who passed away during January 2003.

Cash used by investing activities were $506,000 for 2004 compared to $173,000 for 2003 as a result of increased expenditures for equipment and intangible assets. Equipment purchases of $426,000 were primarily related to new manufacturing packaging equipment and the acquisition and implementation of a new enterprise resource planning ("ERP") system which became operational during the first quarter of 2005. Additional capital expenditures of approximately $150,000 will be required during early 2005 to complete the ERP initiative.

Net cash used by financing activities was $1,090,000 for 2004 compared to $961,000 used for 2003. During 2004, the Company repaid $916,000 of outstanding bank debt including unscheduled principal payments of $582,000 on its term loan. The unscheduled payments were made to reduce interest. During the second quarter of 2004, the Company purchased 86,000 shares of its common stock at fair value from a former employee for $101,480.

During August 2004, the Company renewed its $3,000,000 line-of-credit with its bank lender to September 2005. Borrowings under the line-of-credit are payable on demand and bear interest at the bank's base rate (5.25% at December 31, 2004) which may change from time to time. During 2004, there were no borrowings. Under the terms of the related agreement, the Company is permitted to borrow based on accounts receivable and inventories according to pre-established criteria. The bank has a first security interest on substantially all assets of the Company.

The Company believes that its sources of funds consisting of cash and cash equivalents and funds available from the revolving credit facility will be sufficient to meet its current and expected short and long term requirements. Although there can be no assurance that the Company's revolving credit facility will be renewed, management believes that, if needed, it would be able to find alternative sources of funds on commercially acceptable terms.

The following table sets forth a summary of the Company's cash commitments under contractual obligations as of December 31, 2004:

Contractual Obligations	Total	One Year or Less	2 - 4 Years	5 - 7 Years	More Than Seven Years
Long-term debt	$1,093,424	$ 58,929	$200,391	$229,249	$604,855
Operating lease	111,797	35,195	76,602	--	--
Retirement benefit obligation, as amended	376,700	26,700	68,000	107,500	174,500
	$1,581,921	$120,824	$344,993	$336,749	$779,355

The Company has no off-balance sheet arrangements other than a lease for office and warehouse space.

Critical Accounting Policies

The Company's financial statements have been prepared in accordance with generally accepted accounting principles in the United States. In preparing the financial statements, the Company is required to make estimation judgments. Such judgments are based upon historical experience and certain assumptions that are believed to be reasonable in the particular circumstances. Those judgments affect both balance sheet and income statement accounts and disclosures. The

Company evaluates its assumptions on an ongoing basis by comparing actual results with its estimates. Actual results may differ from the original estimates. The following accounting policies are those that the Company believes to be most critical to the preparation of its financial statements.

Inventory Valuation--The Company's inventories are stated at the lower of cost or market. The Company provides allowances on inventories for any material that has become obsolete or may become unsaleable based on estimates of future demand and sale price in the market. Judgments with respect to saleability and usage of inventories, estimated market value, and recoverability upon sale are complex and subjective. Such assumptions are reviewed periodically and adjustments are made, as necessary, to reflect changed conditions.

Deferred Income Tax Assets--The Company has recorded deferred income tax assets for the estimated benefit of future tax deductions on inventories, property and equipment and retirement benefit obligation and other accruals and various tax credits. Based on the Company's projection of future taxable income and certain prudent tax planning strategies, management believes its deferred income tax assets will be realized and no valuation allowance is necessary. Should circumstances change and the Company determine that some or all of the deferred income tax assets would not be realized, a valuation allowance would be recorded resulting in a charge to operations in the period the determination is made.

Accrued Warranty Costs--The Company warranties its products for up to three years and records the estimated cost of such product warranties at the time the sale is recorded. Estimated warranty costs are based upon actual past experience of product returns and the related estimated cost of labor and material to make the necessary repairs. If actual future product return rates or the actual costs of material and labor differ from the estimates, adjustments to the accrued warranty liability would be made.

New Accounting Pronouncements

Two recently issued accounting pronouncements are likely to have at least some effect on the Company's financial statements in the future.

Statement of Financial Accounting Standards (FAS) No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" requires that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventories and expensed when incurred. FAS No. 151 is effective for fiscal periods beginning after June 15, 2005. The Company does not expect this standard to have a material effect on its financial statements upon adoption.

FAS No. 123R, "Share-Based Payment" requires that a public entity measure the cost of equity based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. A public entity will initially measure the cost of liability based service awards based on current fair value. The fair value of those awards will be re-measured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite period will be recognized as compensation cost over that period. The Company is required to adopt FAS No. 123R on January 1, 2006. The Company has not yet evaluated the likely effects on its financial statements.

Item 7. Financial Statements

PAGE

REPORT OF UHY LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
CAS Medical Systems, Inc:

We have audited the accompanying balance sheet of CAS Medical Systems, Inc. (the Company) as of December 31, 2004 and the related statements of operations, changes in shareholders' equity, and cash flows for year then ended. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Standards Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2004 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ UHY LLP

New Haven, Connecticut
March 28, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
CAS Medical Systems, Inc.:

In our opinion, the accompanying balance sheet and the related statements of operations, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of CAS Medical Systems, Inc. at December 31, 2003, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Company has restated its financial statements for the years ended December 31, 2003 and 2002 to properly account for a post-retirement plan it offers under Financial Accounting Standards Board Statement No. 106, "Accounting for Post-Retirement Benefits other than Pensions".

/S/ PRICEWATERHOUSECOOPERS LLP

Hartford, Connecticut
February 17, 2004, except for Note 2, as to which the date is March 28, 2005

CAS MEDICAL SYSTEMS, INC.

Balance Sheets
As of December 31, 2004 and 2003

ASSETS	2004	2003
		(RESTATED)
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,973,452	$ 881,087
Accounts receivable, net of allowance for doubtful accounts of approximately $94,000 and $50,000 in 2004 and 2003, respectively	2,929,167	3,307,059
Inventories	2,662,686	2,270,616
Deferred income taxes	250,342	347,155
Other current assets	355,367	489,451
Total current assets	8,171,014	7,295,368

PROPERTY AND EQUIPMENT:		
Land and improvements	535,000	535,000
Buildings and improvements	1,473,698	1,472,162
Machinery and equipment	2,908,376	2,504,313
	4,917,074	4,511,475
Accumulated depreciation	(2,649,031)	(2,287,978)
Property and equipment, net	2,268,043	2,223,497
INTANGIBLE AND OTHER ASSETS, net	167,990	209,210
DEFERRED INCOME TAXES	385,935	369,813
Total assets	$10,992,982	$10,097,888
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 58,929	$ 475,185
Notes payable	--	219,619
Accounts payable	734,939	1,007,617
Income taxes	417,130	--
Accrued expenses	854,410	434,963
Total current liabilities	2,065,408	2,137,384
LONG-TERM DEBT, less current portion	1,034,495	1,534,523
RETIREMENT BENEFIT OBLIGATION	736,988	534,899
COMMITMENTS AND CONTINGENCIES (Note 13)		
SHAREHOLDERS' EQUITY:		
Series A cumulative convertible preferred stock, $.001 par value per share, 1,000,000 shares authorized, no shares issued or outstanding	--	--
Common stock, $.004 par value per share, 19,000,000 shares authorized, 9,959,173 and 9,712,577 shares issued in 2004 and 2003, respectively, including shares held in treasury	39,837	38,851
Common stock held in treasury, at cost - 86,000 shares	(101,480)	--
Additional paid-in capital	3,031,387	2,870,769
Retained earnings	4,186,347	2,981,462
Total shareholders' equity	7,156,091	5,891,082
Total liabilities and shareholders' equity	$10,992,982	$10,097,888

The accompanying notes are an integral part of these financial statements.

CAS MEDICAL SYSTEMS, INC.

Statements of Operations
For the Years Ended December 31, 2004, 2003 and 2002

	2004	2003 (RESTATED)	2002 (RESTATED)
REVENUES	$19,922,042	$16,849,478	$15,024,991
OPERATING EXPENSES:			
Cost of product sales	10,832,946	10,308,023	9,124,288
Research and development	1,032,445	929,050	1,257,151
Selling, general and administrative	6,349,088	5,620,233	5,384,378
Operating income (loss)	1,707,563	(7,828)	(740,826)
OTHER INCOME AND EXPENSES:			
Proceeds from life insurance policy	--	500,000	--
Interest expense	72,432	132,168	246,445
Income (loss) before income taxes	1,635,131	360,004	(987,271)
INCOME TAXES (BENEFIT)	430,246	(201,024)	(490,292)
Net income (loss)	$ 1,204,885	$ 561,028	$ (496,979)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic	9,796,684	9,657,529	9,645,077
Diluted	11,128,643	10,459,389	9,645,077
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	$ 0.12	$ 0.06	$ (0.05)
Diluted	$ 0.11	$ 0.05	$ (0.05)

The accompanying notes are an integral part of these financial statements.

CAS MEDICAL SYSTEMS, INC.

Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2004, 2003(Restated) and 2002(Restated)

COMMON STOCK

	ISSUED		HELD IN TREASURY		PAID-IN
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL
BALANCE, December 31, 2001	9,645,077	$ 38,581			$ 2,834,91
Net loss					
BALANCE, December 31, 2002	9,645,077	38,581			2,834,91
Net income					
Common stock issued upon exercise of stock options	67,500	270			35,85
BALANCE, December 31, 2003	9,712,577	38,851			2,870,76
Net income					
Common stock issued upon exercise of stock options	246,596	986			146,65
Purchase of common stock for treasury, from former employee at fair value			86,000	($ 101,480)	
Tax benefit from exercise of stock options					13,96
BALANCE, December 31, 2004	9,959,173	$ 39,837	86,000	($101,480)	$ 3,031,38

The accompanying notes are an integral part of these financial statements.

CAS MEDICAL SYSTEMS, INC.

Statements of Cash Flows
For the Years Ended December 31, 2004, 2003 and 2002

	2004	2003
		(RESTATED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,204,885	$ 561,028
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	503,108	470,389
Deferred income taxes (benefit)	80,691	(114,707)
Provision for doubtful accounts	38,000	41,073
Changes in operating assets and liabilities:		
Accounts receivable	339,892	(888,621)
Inventories	(392,070)	979,391
Other current assets	134,084	(152,684)
Accounts payable, income taxes and accrued expenses	577,866	522,395
Retirement benefit obligation	202,089	270,489

Net cash provided by operating activities	2,688,545	1,688,753
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of intangible assets	(80,722)	(25,020)
Expenditures for property and equipment	(425,712)	(147,556)
Net cash used by investing activities	(506,434)	(172,576)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing under notes payable	--	309,654
Repayments under notes payable	(219,619)	(283,544)
Repayments under long-term debt	(916,284)	(422,996)
(Repayments) borrowings under line-of-credit, net	--	(600,000)
Purchase of common stock for treasury	(101,480)	--
Proceeds from issuance of common stock	147,637	36,126
Net cash (used) provided by financing activities	(1,089,746)	(960,760)
Net increase (decrease) in cash and cash equivalents	1,092,365	555,417
CASH AND CASH EQUIVALENTS, beginning of year	881,087	325,670
CASH AND CASH EQUIVALENTS, end of year	$ 1,973,452	$ 881,087
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 90,798	$ 140,582
Cash paid during the year for income taxes, net of refunds	(193,798)	109,466

The accompanying notes are an integral part of these financial statements.

CAS MEDICAL SYSTEMS, INC.

Notes to Financial Statements

(1) THE COMPANY

CAS Medical Systems, Inc. (the "Company") operates in one business segment and is engaged in the business of developing, manufacturing and distributing diagnostic equipment and medical products for use in the healthcare and medical industry. These products are sold by the Company through its own sales force, via distributors and pursuant to original equipment manufacturer agreements both internationally and in the United States. The Company's operations and manufacturing facilities are located in the United States. During 2004, 2003 and 2002, the Company had sales to one customer which, in the aggregate, accounted for approximately 18%, 18% and 20% of revenues, respectively. The Company generated revenues from international sales of approximately $4.5 million, $3.5 million and $2.6 million in 2004, 2003, and 2002, respectively. In the normal course of business the Company grants credit to customers and does not require collateral. Credit losses are provided for in the sales period based on

experience and an evaluation of the likelihood of collection. Credit losses have been within management's expectations.

(2) RESTATEMENT

During the 2004 year-end closing, management determined that the Company had previously failed to apply the accounting standards of Financial Accounting Standards Board Statement No. 106, "Accounting for Post-Retirement Benefits Other than Pensions" to a post-retirement benefit plan (the "Plan"). The accompanying financial statements for the years ended December 31, 2003 and 2002 have been restated to correct this error. As further discussed in Item 8A of this filing, we have concluded that this failure constituted a material weakness in internal control.

Statement No. 106 requires the Company to estimate the total cost of providing post-retirement benefits and recognize that cost over the employees' service period. Prior to retroactively applying Statement No. 106, the Company recognized the benefit cost using the cash basis of accounting. The benefits are funded through the purchase of medical insurance for each retiree each year. The Company continues to fund the Plan on a "pay-as-you-go" basis.

The Plan became effective in January 2002 for qualifying employees who retire at age 65 or later and have provided ten continuous years of service to the Company. The Plan provides certain prescription drug and supplemental health benefits for Medicare qualified retirees of the Company.

During February 2005, the Company initiated certain changes to the Plan to significantly reduce its future funding requirements. Effective September 1, 2005, participants under the Plan will be required to share the benefit costs, such contributions to be fifty percent of premiums. Other changes may also be made.

In restating, benefit expenses of $270,000 and $264,000 have been recorded for 2003 and 2002, respectively. As a result, previously reported net income for 2003 of $737,000 or $0.07 per diluted common share has been restated to $561,000 or $0.05 per share. For 2002, a previously reported net loss of ($325,000) or ($0.03) per share has been restated to a net loss of ($497,000) or ($0.05) per share. Benefits paid in cash were $22,000 and $9,000 for 2003 and 2002, respectively.

The balance sheet as of December 31, 2004 includes a benefit liability under the Plan of $737,000. The Company has restated its balance sheet as of December 31, 2003 to reflect the accrued benefit liability as of that date of $535,000.

A reconciliation of net income (loss) and related per share amounts previously reported to the restated amounts follow:

	2003	2002
Net income (loss) as previously reported	$ 736,873	$(325,086)
Benefit expense, net of income taxes	175,845	171,893
Net income (loss) as restated	$ 561,028	$(496,979)

Diluted earnings (loss) per share as previously reported	$ 0.07	$ (0.03)
Benefit expense, net of income taxes	0.02	(0.02)
Diluted earnings (loss) per share as restated	$ 0.05	$ (0.05)

Components of net periodic benefit cost under the Plan follow:

	2004	2003	2002
Service cost	$ 88,865	$ 125,817	$ 111,861
Interest cost	46,918	53,151	48,090
Amortization of prior service cost	113,060	113,060	113,060
Unrecognized (gain)	(20,010)	--	--
Net periodic benefit cost	$ 228,833	$ 292,028	$ 273,011

Changes in the benefit obligation under the Plan and a reconciliation of its funded status as of the measurement date (December 31), to amounts shown in the Company's balance sheets follow:

	2004	2003	2002
Benefit obligation at beginning of year	$ 797,177	$ 831,901	$ --
Service cost	88,865	125,817	111,861
Interest cost	46,918	53,151	48,090
Plan amendments			697,582
Actuarial loss (gain)	130,284	(192,153)	(17,031)
Benefits paid	(26,744)	(21,539)	(8,601)
Benefit obligation at end of year	1,036,500	797,177	831,901
Unrecognized prior service costs	(358,402)	(471,462)	(584,522)
Unrecognized net gain (loss)	58,890	209,184	17,031
Accrued post-retirement benefit costs	$ 736,988	$ 534,899	$ 264,410

Because the Plan's benefit formula grants credit only for service after age 55, the expected post-retirement benefit obligation for an employee is attributed from age 55 to age 65.

Weighted average discount rate assumptions used under the Plan follow:

	2004	2003	2002
Year-end benefit obligation	5.75%	6.00%	6.50%
Net periodic benefit cost	6.00%	6.50%	7.00%

Health care trend rate assumptions used to develop cost under the Plan at year-end follow:

	2004	2003	2002

Initial trend rate	8.0%	8.0%	8.0%
Ultimate trend rate	5.0%	5.0%	5.0%
Years to ultimate trend rate	3	3	3

Assumed health care trend rates effect the amounts reported for benefit costs and the benefit obligation. A one percentage point change in assumed health care cost trend rates has the following effects on reported amounts for 2004:

	INCREASE	DECREASE
Effect on total of service and interest cost components	$ 21,435	$ (17,944)
Effect on post-retirement benefit obligation	121,292	(103,450)

The expected benefit payments for the Plan payable in cash for each of the next five years and in the aggregate for the next five years thereafter, as of December 31, 2004, as amended, follow:

2005	$ 26,700
2006	19,500
2007	20,500
2008	28,000
2009	30,000
2010-2014	252,000

The Company has evaluated its post-retirement benefit arrangements in accordance with FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003". The Act introduces a prescription drug benefit under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors of retirement benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Company's post-retirement benefit costs do not reflect amounts associated with the subsidy because it is unable to conclude whether the benefits provided by the Plan are actuarially equivalent to Medicare Part D.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates that are particularly sensitive to change in the near term are the inventory valuation allowances, capitalized software development costs, allowance for doubtful accounts and warranty accrual. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company has deposits in a limited number of financial institutions with federally insured limits. Cash (including cash equivalents) at these institutions is normally in excess of the insured

limits. However, the Company believes that the institutions are financially sound and there is only nominal risk of loss.

INVENTORIES

Inventories are stated at the lower of first-in, first-out (FIFO) cost or market.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, which range from two to five years for machinery and equipment, and twenty years for building and improvements. Maintenance and repairs are charged to expense when incurred.

Depreciation expense on property and equipment was $381,166, $369,934, and $379,592 in 2004, 2003 and 2002, respectively.

LONG-LIVED ASSETS

Impairments of long-lived assets are accounted for in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of." SFAS No. 144 requires a company to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company believes that its long-lived assets are fully recoverable. Accordingly, no impairment is reflected in the Company's reported results of operations for 2004, 2003 and 2002.

INTANGIBLE AND OTHER ASSETS

Intangible and other assets consist of:

	2004	2003
Intangible assets and purchased technology	$ 185,083	$ 337,011
Deferred finance charges	26,484	26,484
Capitalized software	139,870	132,220
	351,437	495,715
Accumulated amortization	(183,447)	(286,505)
	$ 167,990	$ 209,210

Certain intangible assets and licensed technology acquired in connection with a product line acquisition in 1999 at a fair value of $225,000 are fully amortized and as such are no longer reflected in the 2004 balances depicted above. Certain intangible assets and licensed technology acquired in connection with an acquisition in 2000 are being amortized over five years on a straight line basis. Amortization expense of approximately $22,400 per year has been recorded for the four years ended December 31, 2004 for such purchased intangible. Costs associated with the development of new external use software products are expensed as incurred until technological feasibility has been established in accordance with SFAS No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or

Otherwise Marketed." Technological feasibility is demonstrated by the completion of a detailed design plan. Capitalization ceases when the product is available for general release to customers. Between 2002 and 2004, the Company capitalized $139,220 of costs related to the development of new apnea monitor software, assigned such capitalized software a useful life of three years, and amortized $44,073 of such costs during the year ended December 31, 2004. During 2003, the Company refinanced its mortgage payable and incurred related finance charges in the amount of $26,484, which are being amortized over the life of the mortgage.

Scheduled amortization expense of intangible assets as of December 31, 2004 over the next five years follows:

2005	93,466
2006	24,116
2007	13,098
2008	10,548
2009	9,609
	$ 150,837

REVENUE AND ACCOUNTS RECEIVABLE RECOGNITION

Revenues and accounts receivable from product sales are recognized when evidence of an arrangement exists, delivery has occurred based on shipping terms (which are generally FOB shipping point for sales within the United States and EX-Works for export sales), the selling price is fixed and determinable, and collectibility is reasonably assured. The Company follows the guidance of SAB 101, "Revenue Recognition in Financial Statements." Accounts receivable are charged to the allowance for doubtful accounts when deemed uncollectible.

INCOME TAXES

The Company recognizes deferred income tax assets and liabilities for future tax consequences resulting from differences between the book and tax basis of existing assets and liabilities. A valuation allowance is provided for that portion of deferred income tax assets which may not be realized.

WARRANTY COSTS

The Company warrants some of its products against defects and failures for up to three years and records the estimated cost of such warranties at the time the sale is recorded. Estimated warranty costs are based upon actual past experiences of product returns and the related estimated cost of labor and material to make the necessary repairs.

A summary of the changes in the Company's warranty accrual follows:

	2004	2003
Beginning balance	$ 122,000	$ 95,000
Provisions	128,964	183,465
Warranty costs incurred	(128,964)	(156,465)
Ending balance	$ 122,000	$ 122,000

During November 2000, the Company acquired certain assets and assumed certain liabilities related to the AMI(R) Plus Home Infant Apnea Monitor product line from a third party for $1.9 million, which was financed with the proceeds from a note payable to a bank. This product line includes apnea monitors, accessories and related data retrieval software programs for hospital and home use. The acquisition included inventories, related manufacturing equipment, and intangible assets and accrued expenses. Shortly after the November 2000 acquisition of certain assets and assumption of certain liabilities related to the AMI(R) Plus home infant apnea monitor product line from Mallinkrodt, Inc., the two companies concluded that certain apnea monitors previously sold required modifications and associated upgrades to address a design deficiency which existed prior to the acquisition. Under the auspices of the FDA, the modifications and upgrades were started during December 2001 and were completed in 2003. Mallinkrodt, Inc. agreed to indemnify and reimburse the Company for related engineering costs to redesign the upgrade, costs to administer the retrofit, the cost of the modifications and upgrades, and a reasonable profit margin. The reimbursement received from Mallinkrodt for the cost of the upgrade plus a reasonable profit margin is being recorded as revenue, while the reimbursements

received related to costs to administer retrofit and costs to redesign the upgrade have been recorded as reductions of expense as follows:

	2004	2003	2002
Revenues	$ 37,087	$ 133,078	$ 840,592
Research and development	7,043	20,919	133,859
	$ 44,130	$ 153,997	$ 974,451

RESEARCH AND DEVELOPMENT COSTS

The Company expenses all research and development costs as incurred. Research and development expense includes direct costs for salaries, employee benefits, materials, facility related expenses and depreciation.

The Company has received various grants which support its research and development efforts. In accordance with the terms of these grants, the Company is being reimbursed for certain qualifying expenditures under the agreement. Funding provided to the Company is being recorded as a reduction in R&D expenses. The Company recognizes the reimbursement on an accrual basis as the qualifying costs are incurred.

ADVERTISING COSTS

Non-direct response advertising costs are expensed as incurred and include product promotion, samples, meetings and conventions, and print media. Advertising expense was $589,000 in 2004, $631,000 in 2003 and $505,000 in 2002.

EARNINGS PER COMMON SHARE

The Company computes earnings per common share in accordance with SFAS No. 128, "Earnings Per Share." Under SFAS No. 128, basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the year. No dilution for any potentially dilutive securities is included. Diluted earnings per share

assumes the exercise or conversion of dilutive securities using the treasury stock method. Under SFAS 128, diluted EPS equals basic EPS in periods of net loss, as the inclusion of any outstanding options or warrants would be anti-dilutive.

A summary of the Company's basic and diluted earnings (loss) per share follows:

	2004	2003 (RESTATED)	2002 (RESTATED)
Net income (loss)	$1,204,885	$ 561,028	$ (496,979)
Weighted average shares outstanding	9,796,684	9,657,529	9,645,077
Dilutive effect of outstanding warrants and options	1,331,959	801,860	--
Total weighted average shares of dilutive securities outstanding	11,128,643	10,459,389	9,645,077
Earnings (loss) per share - basic	$ 0.12	$ 0.06	$ (0.05)
Earnings (loss) per share - dilutive	$ 0.11	$ 0.05	$ (0.05)

Options and warrants to purchase 292,045 and 1,257,800 shares of the Company's common stock outstanding at December 31, 2003 and 2002, respectively, were not included in the computation of diluted earnings per share because their exercise price was greater than the average market price of the common shares and, therefore, their inclusion would have been anti-dilutive.

RECLASSIFICATIONS

Certain prior year balances have been reclassified to conform to the current year presentation.

SEGMENT REPORTING

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. The Company operates in only one segment. In addition, all long-lived assets are maintained in the United States.

STOCK-BASED COMPENSATION

The Company primarily grants qualified stock options for a fixed number of shares to employees with an exercise price equal to the fair market value of the shares at the date of the grant. The Company has adopted the disclosure only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure".

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based

employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations where, generally, when the exercise price of stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded. Pro-forma information using the fair value method to record stock-based compensation cost follows:

		2004	2003	2002
			(RESTATED)	(RESTATED)
Net income (loss):	As currently reported	$1,204,885	$ 561,028	$ (496,979)
	Compensation expense for stock options based on fair value	147,428	97,224	118,652
	Pro forma	$1,057,457	$ 463,804	$ (615,631)
Earnings (loss) per share:	As reported - Basic	$ 0.12	$ 0.06	$(0.05)
	Pro forma - Basic	0.11	0.05	(0.06)
	As reported - Diluted	0.11	0.05	(0.05)
	Pro forma - Diluted	0.10	0.04	(0.06)

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2004, 2003 and 2002: risk-free interest rates of 4.6%, 4.3% and 5.5%; expected lives of 7 years; dividend yield of 0% and expected volatility of 136%, 127% and 118%, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of long-term debt approximates its fair value based on current market conditions and risks. The carrying amounts of the Company's other financial instruments approximate their fair value.

NEW ACCOUNTING PRONOUNCEMENTS

Two recently issued accounting pronouncements are likely to have at least some effect on the Company's financial statements in the future.

Statement of Financial Accounting Standards (FAS) No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" requires that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventories and expensed when incurred. FAS No. 151 is effective for fiscal periods beginning after June 15, 2005. The Company does not expect this standard to have a material effect on its financial statements upon adoption.

FAS No. 123R, "Share-Based Payment" requires that a public entity measure the cost of equity based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. A public entity will initially measure the cost of liability based service awards based on current fair value. The fair value of those awards will be re-measured

subsequently at each reporting date through the settlement date. Changes in fair value during the requisite period will be recognized as compensation cost over the period. The Company is required to adopt FAS No. 123R on January 1, 2006. The Company has not yet evaluated the likely effects on its financial statements.

(4) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Changes in the allowance for doubtful accounts follow:

	2004	2003	2002
Balance at beginning of year	$ 50,000	$ 55,562	$ 55,375
Provision	38,000	41,073	65,000
Accounts recovered (written off)	6,000	(46,635)	(64,813)
Balance at end of year	$ 94,000	$ 50,000	$ 55,562

(5) INVENTORIES

Inventories consist of:

	2004	2003
Raw materials	$ 1,727,578	$ 1,281,620
Work in process	144,628	434,055
Finished goods	790,480	554,941
	$ 2,662,686	$ 2,270,616

(6) FINANCING ARRANGEMENTS

LINE-OF-CREDIT

During August 2004, the Company renewed its $3,000,000 line-of-credit with its bank to September 2005. Borrowings under the line-of-credit are payable on demand and bear interest at the bank's base rate which may change from time to time (5.25% at December 31, 2004). During 2004, there were no borrowings. Under the terms of the related agreement, the Company is permitted to borrow based on accounts receivable and inventories according to pre-established criteria. Substantially all assets of the Company are required to be pledged as collateral for borrowings under the line-of-credit.

NOTES PAYABLE

The Company financed its directors and officers and property casualty insurance policies during 2003. The monthly installments were $12,275 and $22,850, respectively, including interest at 4.13% and 3.58%, respectively. The notes were repaid in full during August 2004.

LONG-TERM DEBT

Long-term debt consists of:	2004	2003
Mortgage payable to a bank in monthly installments of $9,750, including		

interest at 5.45% per annum as amended, collateralized by the Company's primary operating facility (matures January 2018)	$ 1,093,424	$ 1,149,234
Note payable to a bank in monthly installments of approximately $37,700, including interest at 5.0% per annum as amended	--	860,474
	1,093,424	2,009,708
Less current portion	58,929	475,185
	$ 1,034,495	$ 1,534,523

Scheduled maturities of principal of long-term debt follow:

2005	$ 58,929
2006	62,222
2007	65,699
2008	72,370
2009	70,247
Thereafter	763,957
	$ 1,093,424

(7) ACCRUED EXPENSES

Accrued expenses consist of:

	2004	2003
Payroll	$ 163,732	$ 227,193
Professional fees	58,775	23,700
Warranty	122,000	122,000
Bonuses	315,000	--
Customer refunds	83,364	--
Other	111,539	62,070
	$ 854,410	$ 434,963

(8) STOCK OPTIONS AND WARRANTS

In June 2004, the Company's stockholders approved the CAS Medical Systems, Inc. 2003 Equity Incentive Plan (the "Incentive Plan"). Under the Incentive Plan, 1,000,000 shares of common stock have been reserved for issuance. Awards that may be granted under the Incentive Plan include options, restricted stock, restricted stock units, and other stock-based awards. The purposes of the Incentive Plan are to make available to our key employees and directors, certain compensatory arrangements related to growth in the value of our stock so as to generate an increased incentive to contribute to the Company's financial success and prosperity; to enhance the Company's ability to attract and retain exceptionally qualified individuals whose efforts can affect the Company's financial growth and profitability; and align in general the interests of our employees and directors with the interest of our stockholders. The Incentive Plan is administered by the Compensation Committee of the Board of Directors, which in turn determines the employees, officers and directors subject to receive awards and the terms and conditions of these awards.

During 2004, under the Incentive Plan, options for 249,250 shares of common

stock were granted to the

Company's employees and 3,500 shares were cancelled, leaving 754,250 shares available for issuance.

As of December 31, 2004, 394,700 options remain outstanding under the 1994 Employees Incentive Stock Option Plan (the "1994 Plan"). The 1994 Plan expired during 2003 and as such, there are no further options available for issuance.

During 2004, 7,500 warrants were granted to each of the Company's three outside directors.

In June 2004, the Company's stockholders approved the CAS Medical Systems, Inc. Employee Stock Purchase Plan (the "Purchase Plan"). Under the Purchase Plan, 150,000 shares of common stock have been reserved for issuance. The Purchase Plan offers the Company's employees an opportunity to participate in a payroll-deduction based program designed to incentivize them to contribute to the Company's success and prosperity. The initial offering period began on July 1, 2004 and concluded on December 31, 2004. During January 2005, 18,321 shares of common stock were issued to plan participants related to the initial offering period; no shares were issued prior thereto.

A summary of the Company's stock option plans and changes during the years follow:

	2004		2003		2002	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	693,800	$ 0.63	757,800	$ 0.62	946,400	$ 0.65
Granted	249,250	1.46	85,000	0.70	235,500	0.61
Exercised	(246,600)	0.60	(67,500)	0.54	--	
Canceled	(56,000)	0.63	(81,500)	0.74	(424,100)	0.69
Outstanding at end of year	640,450	0.96	693,800	0.63	757,800	0.62
Exercisable at end of year	364,700	$ 0.64	548,550	$ 0.61	482,300	$ 0.60
Weighted average grant-date fair value of options granted during the year		$ 1.46		$ 0.70		$ 0.58

Additional information about stock options outstanding and exercisable at December 31, 2004 follow:

RANGE OF EXERCISE	NUMBER	WEIGHTED AVERAGE REMAINING CONTRACTUAL	WEIGHTED AVERAGE EXERCISE	NUMBER	WEIGHTED AVERAGE EXERCISE

PRICES	OUTSTANDING	LIFE IN YEARS	PRICE	EXERCISABLE	PRICE
$0.53 - $0.67	267,200	5.9	$ 0.58	267,200	$ 0.58
0.70 - 0.03	127,500	6.7	0.79	97,500	0.81
1.37 - 1.50	245,750	9.3	1.46	--	--
$0.53 - $1.50	640,450	7.4	0.96	364,700	0.64

Warrants to purchase 1,486,500 shares of common stock at a weighted average exercise price of $0.53 per share are outstanding at December 31, 2004. These warrants have no specific expiration date and have an exercise price range of $0.31 to $1.44 per share. Also outstanding at December 31, 2004 is a warrant issued to the

Company's President and Chief Executive Officer to purchase 100,000 shares of the Company's common stock at $1.00 per share. This warrant is exercisable solely in the event of a change of control of the Company as defined.

(9) LIFE INSURANCE

During 2004, the Company paid term-life insurance premiums of approximately $31,000 for life insurance policies on the lives of three officers of the Company. The face amount of insurance on one of the policies is $1,000,000 under which the Company is named as a beneficiary in the amount of $750,000. The remaining two policies have face amounts that are the equivalent of two times the officer's annual salary. The Company is not a beneficiary on either of these two policies.

During 2003 and 2002, the Company paid term-life insurance premiums of approximately $26,240, and $45,600, respectively for life insurance policies on the lives of two officers of the Company. In January 2003, one of the officers died. During February 2003, the Company received proceeds of $500,000 pursuant to the policy.

(10) 401(K) PLAN

The Company maintains a 401(k) benefit plan for its employees, which generally allows participants to make contributions via salary deductions up to allowable Internal Revenue Service limits on a tax-deferred basis. Such deductions are matched in part by discretionary contributions by the Company. The 2004, 2003 and 2002 expenses related to matching contributions by the Company were $75,578, $60,439, and $56,494, respectively.

(11) INCOME TAXES

The provision (benefit) for income taxes consisted of:

	2004	2003	2002
		(RESTATED)	(RESTATED)
Current:			
Federal	$ 427,188	$ 29,401	$ (50,374)
State	(77,632)	(115,719)	5,843
	349,556	(86,318)	(44,531)

Deferred:			
Federal	66,656	(97,538)	(377,032)
State	14,034	(17,168)	(68,729)
	80,690	(114,706)	(445,761)
Income taxes (benefit)	$ 430,246	$(201,024)	$(490,292)

For 2004, the effective tax rate was lower than the federal statutory rate primarily as a result of utilizing R&D credits, alternative minimum tax credits and net operating loss carry forwards. For 2003, the effective tax rate was lower than the statutory rate primarily as a result of state tax benefits including the reversal of a tax accrual of approximately $150,000 due to the favorable outcome of a state tax audit; non-taxable proceeds of $500,000 from a life insurance policy; and R&D credits. During 2002, the effective tax rate of 55% was greater than the federal statutory rate due to state tax benefits and R&D tax credits.

Deferred income tax assets and (liabilities) at December 31 relate to:

	2004	2003 (RESTATED)
Inventories	$ 252,225	$ 265,278
Warranty accrual	42,688	42,688
Bad debt allowance	32,891	17,495
Tax credits	40,284	87,205
Property and equipment	87,002	70,123
Retirement benefit obligation	257,872	187,161
Prepaid expenses	(121,305)	--
Other	44,620	47,018
	$ 636,277	$ 716,968

(12) GRANT AWARDS

The Company has been awarded various grants by the National Institutes of Neurological Disorders and Stroke of the NIH under its Small Business Innovative Research Program. Grants under this program are being used to support development of a new technology, Near-Infrared Spectroscopy ("NIRS") which can non-invasively measure the brain oxygenation level of a neonatal patient. In accordance with the terms of these grants, the Company is reimbursed for certain qualifying expenditures. The Company is pursuing additional NIH grants to support its NIRS research.

The Company has received various grants under the NIH program including a phase II award received during May 2004 approximating $1,000,000 for continued development in the adult population. NIRS related awards included two $100,000 grants received during 2003 for development in the area of neonatal applications.

During March 2004, the Company was awarded a $100,000 grant for developing a new generation of automated non-invasive blood pressure ("NIBP") monitors, which have incorporated advanced NIBP algorithms that compensate

for arterial stiffness.

During 2004, 2003 and 2002, approximately $521,000, $372,000 and $284,000, respectively, of qualifying research and development costs (R&D) were reimbursed under the grants. Such reimbursements are recorded as a reduction in R&D expenses. The Company recognizes these reimbursements on an accrual basis as the qualifying costs are incurred.

(13) COMMITMENTS AND CONTINGENCIES

The Company is committed under an employment agreement with its Chief Executive Officer for payments aggregating approximately $262,500 per year, which expires on August 31, 2005.

The Company's articles of incorporation provide that the Company will indemnify its directors to the full extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of being or having been a director of the Company. Given the nature of this indemnification, the Company is unable to make a reasonable estimate of the maximum potential amount that the Company could be required to pay. Historically, the Company has not made any significant payments related to the above indemnification. Currently, there are no known matters for which the Company may be required to provide indemnification. As such, no amount has been accrued in the accompanying financial statements. In December 2004 the Company entered into a non-cancelable operating lease for office and limited warehouse space adjacent to its owned facilities. Under this lease, the Company is committed to minimum annual rental payments of $37,000 in 2005, $38,000 in 2006 and $39,000 in 2007.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 8A. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls

and procedures as of December 31, 2004. During the Company's year-end audit, management, together with the Board of Directors, determined that its accounting with respect to a postretirement health benefit plan (the "Plan") was not in accordance with FASB Statement No. 106, "Accounting for Post-Retirement Benefits Other Than Pensions". Under No. 106, companies are required to estimate the total future cost of providing postretirement benefits ("OPEBs") and recognize that cost over the employees service period. During January 2002, the Company established the Plan for its qualifying employees who retire at age sixty-five or older and have provided ten continuous years of service to the Company. The Plan provides certain prescription drug and supplemental health benefits for Medicare qualified retirees of the Company. The benefits are funded through the purchase of medical insurance for each retiree each year. In restating, OPEB expenses of $270,000 and $264,000 have been recorded for the twelve months ended December 31, 2003 and 2002, respectively. For those years, benefits paid in cash were $22,000 and $9,000. As a result, previously reported net income for 2003 of $737,000 or $0.07 per diluted common share has been restated to $561,000 or $0.05 per share. For 2002, a previously reported net loss of ($325,000) or ($0.03) per share has been restated to a net loss of ($497,000) or ($0.05) per share. The balance sheet as of December 31, 2004 includes an OPEB liability under the Plan of $737,000. The Company has restated its balance sheet as of December 31, 2003 to reflect the accrued OPEB liability as of that date of $535,000. Based upon the foregoing facts, management has concluded that its disclosure controls and procedures contained a material weakness as of December 31, 2004 and were therefore not effective as of that date.

Subsequent to December 31, 2004 in conjunction with the preparation of the financial statements for that period, the Company has implemented process and control improvements to insure that its benefit plans are reviewed and properly accounted for. There have been no other changes in the Company's internal control over financial reporting during the quarter ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

Item 8B. Other Information

None.

PART III

Item 9. Directors and Executive Officers of the Registrant

Reference is made to the sections entitled "Election of Directors", "Management", and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's definitive proxy statement to be mailed to shareholders on or about April 28, 2005, and to be filed with the Securities and Exchange Commission.

Item 10. Executive Compensation

Reference is made to the sections entitled "Compensation of Executive Officers" and "Election of Directors" in the Registrant's definitive proxy statement to be mailed to shareholders on or about April 28, 2005, and to be filed with the Securities and Exchange Commission.

Item 11. Security Ownership of Certain Beneficial Owners and Management and
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Related Stockholder Matters

Reference is made to the section entitled "Stock Ownership" in the Registrant's definitive proxy statement to be mailed to shareholders on or about April 28, 2005, and to be filed with the Securities Exchange Commission.

The following table provides information regarding the Company's equity compensation plans as of December 31, 2004:

Plan Category	Number of securities to be issued upon exercise of outstanding options and warrants	Weighted-average exercise price of outstanding options and warrants	Number of sec remaining ava for future is under equi compensation
Equity compensation plans approved by security holders	640,450	$ 0.96	754,2
Equity compensation plans not approved by security holders	1,486,500	0.53	
Total	2,126,950	$ 0.66	754,2

Securities available for issuance under equity compensation plans approved by security holders represent the 2003 Equity Incentive Plan approved during 2004. The equity compensation plans not approved by security holders consist of warrants granted to an officer and directors of the Company as compensation for services rendered. These warrants have no expiration date. See Note 7 to the Company's Financial Statements.

Item 12. Certain Relationships and Related Transactions

The Company and Louis P. Scheps have entered into an employment agreement pursuant to which Mr. Scheps serves as President and Chief Executive Officer of the Company. The employment agreement, dated September 1, 2000, has been amended (as amended, the "Employment Agreement") to extend its term through August 31, 2005 and provides for a base salary of $262,500 per year. The Employment Agreement also provides that if a "Change of Control" (as defined below) occurs, and upon such Change of Control occurring, the Employment Agreement is not extended for a period of at least one year following the stated termination date of the Employment Agreement, Mr. Scheps shall be paid a lump sum of $262,500 on such stated termination date. "Change of Control" is defined in the Employment Agreement to mean (i) a sale of all or substantially all of the Company's assets, (ii) a merger involving the Company in which the Company is not the survivor and the Company's stockholders prior to the merger control less than fifty percent of the voting stock of the surviving entity, (iii) a sale by the Company's stockholders to an acquirer or acquirers acting in concert of more than a majority of the then outstanding stock of the Company owned by the Company's stockholders, or (iv) any event similar to any of the foregoing. During October 1998, Mr. Scheps was granted a warrant to purchase 100,000 shares of the Company common stock at an exercise price of $1.00 per share, the fair market value of the option at the date of the grant. This warrant is exercisable solely in the event of a Change of Control.

Item 13. Exhibits List

(A) 3.1 Certificate of Incorporation of Registrant (1)

3.2 Amended and Restated By-Laws of Registrant (3)

10.1 Employment Agreement dated September 1, 1993 between the Company and Louis P. Scheps (2)

10.2 Amendment Number One to Employment Agreement dated September 1, 1998 between the Company and Louis P. Scheps (2)

10.3 Amendment Number Two to Employment Agreement dated September 1, 2000 between the Company and Louis P. Scheps (2)

10.4 Amendment Number Three to Employment Agreement dated September 1, 2002 between the Company and Louis P. Scheps (2)

10.5 Amendment Number Four to Employment Agreement dated September 1, 2003 between the Company and Louis P. Scheps (3)

10.6 Amendment Number Five to Employment Agreement dated September 1, 2004 between the Company and Louis P. Scheps

10.7 CAS Medical Systems, Inc. 2003 Equity Incentive Plan (4)

10.8 Form of Option Agreement

10.9 Stock Purchase Plan (4)

23.1 Consent of UHY LLP, Independent Registered Public Accounting Firm

23.2 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm

31.1 Certification of CEO Pursuant to Rule 13a-14

31.2 Certification of CFO Pursuant to Rule 13a-14

32.1 Certification of CEO and CFO Pursuant to 18 U.S.C. 1350

(1) Incorporated by reference to the Registrant's Registration Statement, dated April 15, 1985, filed with the Securities and Exchange Commission.

(2) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended December 31, 2002.

(3) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended December 31, 2003.

(4) Incorporated by reference to the Company's Proxy Statement filed April 22, 2004.

Item 14. Principal Accountant Fees and Services

Reference is made to the proposal entitled "Ratification of Selection of Independent Auditors" in the Registrant's definitive proxy statement to be mailed to shareholders on or about April 28, 2005, and to be filed with the

Securities and Exchange Commission.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAS MEDICAL SYSTEMS, INC.

(Registrant)

/s/ Louis P. Scheps — Date: March 28, 2005

By: Louis P. Scheps
Chairman of the Board, President and
Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Lawrence Burstein — Date: March 28, 2005

Lawrence Burstein, Director

/s/ Jerome Baron — Date: March 28, 2005

Jerome Baron, Director

/s/ Saul Milles — Date: March 28, 2005

Saul Milles, Director

/s/ Louis P. Scheps — Date: March 28, 2005

Louis P. Scheps, Chairman of the Board,
President, Chief Executive Officer and Director

/s/ Jeffery A. Baird

Jeffery A. Baird, Chief Financial Officer
(Chief Financial and Accounting Officer) — Date: March 28, 2005