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FORM 10-K
(Annual Report)

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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended September 30, 2010.

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______to ______.

Commission File Number 000-10843

CSP Inc.

(Exact name of Registrant as specified in its Charter)

Massachusetts	**04-2441294**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

43 Manning Road, Billerica, Massachusetts 01821-3901 (978) 663-7598
(Address and telephone number of principal executive offices)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange of Which Registered**
Common Stock, par value $0.01 per share	**NASDAQ Global Market**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐ .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller Reporting Company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes ☐ No ☒

As of March 31, 2010, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $9,970,722 based on the closing sale price of $3.60 as reported on the Nasdaq Global Market.

As of December 17, 2010, we had outstanding 3,543,547 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the information required in Part III of this Form 10-K are incorporated by reference from our definitive proxy statement for our 2011 annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended September 30, 2010.

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PART I

Item 1. ***Business***

CSP Inc. ("CSPI" or "the Company" or "we" or "our") was incorporated in 1968 and is based in Billerica, Massachusetts, just off Route 128 in the Boston computer corridor. To meet the diverse requirements of our industrial, commercial, and defense customers worldwide, CSPI and its subsidiaries develop and market IT integration solutions and high-performance cluster computer systems.

Segments

CSPI operates in two segments, the Systems segment and the Service and System Integration segment.

- The Systems segment consists primarily of CSPI's MultiComputer Division (the "MultiComputer Division") which designs and manufactures specialty, high-performance computer signal processing systems for the aerospace and defense markets. The MultiComputer Division's products are known as multicomputers or cluster computers, which use multiple microprocessors linked together in a specialized network to achieve very high performance processing capabilities. Our MultiComputer systems utilize "blades" (self-contained, high-density computer boards) to achieve a high level of compute processing per-cubic-foot-per-watt. The blades and other components that make up the system are housed in a ruggedized chassis, designed to withstand physically demanding environments such as those found on board a ship or airplane. In addition, CSPI's MultiComputer products are designed to operate in environments that have low power, cooling and space requirements. These systems are used on land and in airborne and shipboard platforms for high-speed digital signal processing ("DSP") in radar, sonar and surveillance applications. The MultiComputer Division sells all its products through its own direct sales force in the United States and via distributors and authorized resellers in the Asia-Pacific region.

- The Service and System Integration Segment consists of the computer maintenance and integration services and third-party computer hardware and software value added reseller ("VAR") businesses of our Modcomp subsidiary ("Modcomp"). Modcomp is a wholly owned subsidiary of CSPI which operates in the United States, Germany and the United Kingdom (the "U.K."). Modcomp markets and sells its products through its own direct sales force. Modcomp provides solutions and services for complex IT environments including storage and servers, unified communications solutions, IT security solutions and consulting services. Modcomp also provides managed IT services through its state of the art network operations center ("NOC").

Financial Information about Industry Segments

The following table details our sales by operating segment for fiscal years ending September 30, 2010 and 2009. Additional segment and geographical information is set forth in Note 13 to our financial statements.

Segment	**2010**	**%**	**2009**	**%**
		(Amounts in thousands)		
Systems	$ 8,311	9%	$ 7,987	10%
Service and System Integration	86,707	91%	75,370	90%
Total Sales	$ 95,018	100%	$ 83,357	100%

Systems Segment

Products and Services

The Systems segment's MultiComputer systems utilize commodity hardware components that are compliant with industry standards and open source software and deliver a high-performance, high density and low power consuming computer solution to our customers. These systems incorporate tens to hundreds of processors, all interconnected by a very high-bandwidth network. They are specifically designed for analysis of complex signals and images in real-time or in modeling and simulations. Typical computationally intense applications requiring these products include radar, sonar, command, control, communications, computers, intelligence, surveillance and reconnaissance ("C^4ISR") within the defense market segment.

We utilize the most recent, currently available high performance processor technology, large memory subsystems and high-bandwidth networking components in the open hardware architecture of our MultiComputer systems. These systems are scalable and easy to upgrade, allowing for continuous insertion of the latest technologies. To meet the demands of mission-critical applications, our MultiComputer systems incorporate high-availability features to facilitate continuous operation of the system. These features include instant booting from a cold start, error-correcting memory, hot-swappable hardware, extended environmental specifications and built-in self-test. These systems ship in a variety of configurations ranging from small lab systems with as few as ten processors to multiple-chassis systems with over 400 processors.

Hardware Products

Our MultiComputer Division cluster computer systems are currently marketed under the brand name FastCluster. Introduced in 1997, the first generation of FastCluster products were referred to as the FastCluster 2000 SERIES. Based upon industry standards, the 2000 SERIES systems included a VME 6U form factor (the form factor best suited for use in rugged applications), the Motorola™ G4 PowerPC RISC processors with AltiVec™ technology, high-speed memory and Myrinet-2000™ cluster interconnect. The 2000 SERIES product line is ideally suited for use by customers in the aerospace and defense markets seeking Commercial-Off-The-Shelf ("COTS") solutions to reduce costs and ensure widespread availability. To remain competitive, our COTS solutions incorporate the latest industry standard technologies and minimize the risks associated with proprietary solutions.

Our StarGate I/O blade is a 2000 SERIES board-level component designed specifically for high-speed data acquisition. The StarGate bolstered our product offerings in radar, sonar and surveillance DSP by providing the rapid execution times that are necessary for the complex signal processing demands of these applications. The StarGate I/O blade was the first 2000 SERIES product to benefit from the increased performance provided by the 1GHz Motorola 7457 PowerPC microprocessors and related technologies.

The FastCluster product line was enhanced with the addition of rugged system capabilities for blades and enclosures with the introduction of the FastCluster 220R to our 2000 SERIES product line. The FastCluster 220R introduced a new rugged chassis, specifically designed to meet military standard ("MIL-STD") specifications for mission-critical, airborne defense programs. The advanced packaging maintained scalability to hundreds of processors and leveraged the latest Myrinet-2000 fiber clustering technology for multi-chassis configurations. This packaging offered better fault detection, hot-swap capability, plug-in power supply and blower assembly components for improved serviceability and addressed MIL-STD requirements for shock, vibration and EMC/EMI.

Building upon the momentum of the 2000 SERIES, we announced the next generation FastCluster product line, the 3000 SERIES, in fiscal 2006. The first prototype of a 3000 SERIES component was shipped to a customer for evaluation purposes in September 2007. This prototype was successfully evaluated by the customer during fiscal 2008. We received and shipped additional 3000 SERIES orders in fiscal 2010 and we expect to receive a significant order for 3000 SERIES systems in fiscal 2011. The 3000 SERIES product line is being designed to deliver performance that is superior to our predecessor products in bi-section bandwidth and processing density while preserving absolute code reuse at the application layer. The 3000 SERIES product line is targeting high performance DSP, signal intelligence ("SIGINT"), radar and sonar applications in airborne, shipboard and unmanned aerial vehicle ("UAV") platforms where space, power and cooling are at a premium. With its built-in 10-Gigabit Ethernet technology, the 3000 SERIES supports the United States ("U.S.") Government Department of Defense ("DOD") vision of "systems of systems" in which embedded systems are not designed, deployed and used in isolation but rather in a cooperative way.

In fiscal 2010, we announced 3000 SERIES OpenVPX ™ with Intel multi-core processors and the OpenVPX ™ VITA/ANSI standard (Vita 65) to support high performance radar, sonar, C^4ISR and SIGINT applications. OpenVPX ™ is the architecture framework that defines system-level interoperability for multivendor, multimode, integrated system environments. OpenVPX ™'s consideration of system-level requirements improves interoperability between computing and communications platforms and reduces customization, testing, cost and risk.

Also, in fiscal 2010, we announced our new 4000 SERIES ATCA products. The 4000 SERIES is based on InfiniBand, Advanced Telecom Computing Architecture ("AdvancedTCA" or "ATCA") & NEBS standards to deliver affordability, sustainability and high availability to manned and unmanned large mobile platforms (land, sea and air.) ATCA was originally designed to address the high availability, robust system management and DC power distribution needs of the telecom and communications markets. ATCA has since become attractive to the military and defense markets as well.

Military computing and communication applications share the need for increased bandwidth and reliability, extremely robust mechanical and electrical definitions, power efficiency and unprecedented processor density. ATCA provides built-in high reliability features such as a 40 gigabit Ethernet backplane, redundant shelf managers, fail-over capability and support of live insertion of boards, power supplies and fans. These features are ideal for the DOD's network-centric warfare initiative.

All of the products of the MultiComputer Division offer the user a choice in selecting the system software best suited to their application requirements. For customers wanting a lower cost solution, our cluster computer systems are available with the open-source Linux operating system and toolkit. Customer applications requiring real-time response have the option of purchasing systems with the industry standard VxWorks real-time operating system and Tornado II development tools suite.

All MultiComputer cluster computer systems use the best of open systems software technologies, such as message passing interface ("MPI") software for interprocessor communications and the highly optimized industry standard math libraries: Industry Standard Signal Processing Library and Vector Signal and Image Processing Library. These libraries facilitate the development of truly portable code for seamless reuse across applications, while taking advantage of optimized performance on the PowerPC with AltiVec.

Markets, Marketing and Dependence on Certain Customers

Aerospace & Defense Market

We market our MultiComputer systems to the aerospace and defense markets with emphasis on applications requiring the analysis of complex signals such as sonar and radar. We distribute our products in these markets as an original equipment manufacturer ("OEM") supplier to system integrators, distributors and value-added resellers. In these markets, the supplier/customer relationship is viewed as a long-term strategic partnership.

MultiComputer systems are sold primarily to prime contractors (serving as systems integrators) within the defense industry and are used in sonar, radar, C^4 ISR systems, simulators and signal and image analysis computers. Customers in this market segment have unique requirements. A prime contractor will typically incorporate our products into their own future product developments and, therefore, will need early access to low-level, detailed technical specifications, prototype units, form, fit and function compatibility with previous products, long term product availability and support. As a supplier in this market, we recognize that there may be a significant up-front investment of time and resources in building a business partnership. However, the result of this partnership is a strong potential for long-term revenue streams as products progress from development phases into deployment.

Our cluster computing technologies that support "network centric warfare" and information exchange in real-time are becoming increasingly significant to twenty-first century military operations. There has been steady growth of new programs requiring signal/image processing and analysis equipment as well as upgrades to existing military programs. However, the efficiency inherent in these technologies reduces the number of systems required to achieve the same results. Both new and upgraded programs require a substantial investment in development and evaluation before products deploy into field use. The time from development to deployment varies based on the program; however, it very often extends beyond twenty-four months. Looking forward to fiscal 2011 and beyond, our focus is to build interest in our 3000 SERIES and 4000 SERIES multicomputers among our customers.

Competition

The Systems segment's markets are very competitive. Customer requirements coupled with advances in technology drive our efforts to continuously improve existing products and develop new ones. Starting with Intel i860 microprocessors used in the SuperCards of the 1980s to the Motorola PowerPCs with AltiVec processors incorporated in the early FastCluster 2000 SERIES and later the addition of Linux open source software, we have responded with product offerings that are vital to remaining competitive. Product development efforts in fiscal year 2009 involved completing and launching new enhancements to our 3000 SERIES product line, with a focus on continuing to provide our defense customers with increased processing capabilities based on the latest industry standard technologies: VXS (VITA 41), multi-core processors, FPGAs and Myricom's Myri-10G high speed interconnect with 10 Gigabit Ethernet support.

Applications expertise, product innovation, strong technical support and dedicated customer service allow us to compete favorably as a provider of high-performance cluster computer systems.

Our direct competitors in the aerospace and defense market are Mercury Computer Inc., AP Labs, Curtis Wright and G. E. Intelligent Platforms. Our indirect competitors are the board manufacturers that specialize in the DSP segment of this market. In the past, manufacturers such as Emerson, HP, IBM and Dell participated in the low performance segment of the general-purpose computer and single board computer market. Today, those companies manufacture general-purpose computer systems incorporating multi-core processors and have the potential to become formidable competitors in compute intensive applications, such as radar and sonar. While our products are designed to offer the best overall value in combined performance, features and price, we may not overcome the capabilities of larger companies to address the needs of the cost sensitive customer, where price, as opposed to system performance, size and specialized packaging, is the primary factor in the buying decision.

New companies enter the field periodically and larger companies with greater technical resources and marketing organizations could decide to compete in the future. The future growth of this market depends upon continued growth in strategic partnerships and providing high density and scalability in a compact, low power and cost effective package that can easily be integrated into OEM designs for high performance computation. Since the majority of sales are to prime contractors, the principal barrier to gaining market share is the reluctance of established users to redesign their product once it is in production. A key area of opportunity exists in design wins on new programs.

Manufacturing, Assembly and Testing

All MultiComputer systems are shipped to our customers directly from our plant in Billerica, Massachusetts. Our manufacturing activities consist mainly of final assembly and testing of printed circuit boards and systems that are designed by us and fabricated by outside vendors.

Upon receipt of material and components by us from outside suppliers, our quality assurance technicians inspect these products and components. During manufacture and assembly, both subassemblies and completed systems are subjected to extensive testing, including burn-in and environmental stress screening designed to minimize equipment failure at delivery and over its useful service life. We also use diagnostic programs to detect and isolate potential component failures. A comprehensive log is maintained of all past failures to monitor quality procedures and improve design standards.

We provide a warranty covering defects arising from products sold and service performed, which varies from 90 days to one year, depending upon the particular unit.

Customer Support

Our MultiComputer Division supports our customers with telephone assistance, on-site service, system installation, training and education. We provide product support service during the warranty period. Customers may purchase extended software and hardware maintenance and on-site service contracts for support beyond the warranty period.

We offer training courses at our corporate headquarters or the customer site. Field and customer service support is provided by employees located at our headquarters in Billerica, Massachusetts for Systems segment customers.

Sources and Availability of Raw Materials

Several components used in our Systems segment products are obtained from sole-source suppliers. We are dependent on key vendors like Myricom, Inc. for our high-speed interconnect components, Freescale Semiconductor, Inc. for our PowerPC processors and Wind River Systems, Inc. for VxWorks operating system software. Despite our dependence on these sole-source suppliers, we do not consider the risk of interruption of supply to be significant to meet our projected revenue requirements for the near term. Also, all components used to build our new 3000 SERIES and 4000 SERIES systems are currently available in a timely manner.

Research and Development

For the year ended September 30, 2010, our expenses for research and development were approximately $2.0 million compared to approximately $2.0 million for fiscal year 2009. Expenditures for research and development are expensed as they are incurred. Our Systems segment expects to continue to have substantial expenditures related to the development of new hardware products and the software that enables the hardware to function. Our Systems products and development currently in process are intended to extend the usefulness and marketability of existing products and introduce new products into existing market segments, including the 3000 SERIES and 4000 SERIES product lines.

We do not have any patents that are material to our business.

Backlog

The backlog of customer orders and contracts in the Systems segment was approximately $2.0 million at September 30, 2010 as compared to $4.1 million at September 30, 2009. Our backlog can fluctuate greatly. These fluctuations can be due to the timing of receiving large orders representing prime contractor purchases. It is expected that all of the customer orders in backlog will ship within the next twelve months.

Service and System Integration Segment

Products and Services

Integration Solutions

Over the past several years, the business of our Service and System Integration segment has evolved away from selling our proprietary process control and data acquisition (“PCDA”) computer systems, into becoming a systems integrator and VAR of integrated solutions including third-party hardware, software and technical computer-related consulting services and managed services via a state of the art NOC. Our value proposition is our ability to integrate diverse third-party components together into a complete solution and install the system at the customer site and to offer high value IT consulting services to deliver solutions.

Third-Party Hardware and Software

Modcomp sells third-party hardware and software products in the information technology market, with a strategic focus on industry standard servers and data center infrastructure solutions, midrange data storage infrastructure products, network products, unified communications and IT security hardware and software solutions. Our key offerings include products from HP, Cisco Systems, Sun Microsystems, IBM, Juniper Networks, Hitachi, QLogic, Dell, Enterasys, Citrix, APC, EMC, Intel, VMWare, Fortinet, nCirlce, Microsoft and Checkpoint. Through our supplier relationships with these vendors, we are able to offer competitively priced best-of-breed products to meet our customers’ diverse technology needs, providing procurement and engineering expertise in server infrastructure, storage, security, unified communications and networking, to the small-to-medium sized businesses (“SMBs”) and large enterprise businesses (“LEBs”) with complex IT environments. We offer our customers a single point of contact for complex multi-vendor technology purchases. Many of our SMB customers have unique technology needs and may lack technical purchasing expertise or have very limited IT engineering resources on staff. We also provide installation, integration, logistical assistance and other value-added services that customers may require. Our current customers are in web and infrastructure

hosting, education, telecommunications, health services, distribution, financial services, professional services, manufacturing and entertainment industries. We target SMB and LEB customers across all industries.

Professional Services

We provide professional IT consulting services in the following areas:

- Maintenance and technical support both for third-party products and proprietary Modcomp legacy PCDA systems—hardware and software, operating system and user support.

- Implementation, integration, configuration and installation services.

- Storage area network ("SAN") solutions – We help our customers implement SAN solutions using products from Hitachi, EMC, HP, DataDomain and NetApp. SANs allow system administrators to realize the benefits of SANs over conventional storage architecture. These benefits include cost savings from better utilization of hardware and lower headcount requirements to run and maintain data storage systems, higher availability and faster data access rates resulting in increased productivity.

- Virtualization – We implement virtualization solutions using products from companies such as VMWare. Virtualization allows one computer to do the job of multiple computers by sharing resources of a single computer across multiple environments. With virtual servers and desktops, users can host multiple operating systems and applications, which can eliminate physical and geographical limitations. Other benefits include energy cost savings, lower capital expenditure requirements, high availability of resources, better desktop management, increased security and improved disaster recovery processes.

- Enterprise security intrusion prevention, network access control and unified threat management—Using third-party products from companies like Checkpoint, Juniper Networks and Cisco Systems, our services are designed to ensure data security and integrity through the establishment of virtual private networks, firewalls and other technologies.

- IT security compliance services—We provide services for IT security compliance with personal privacy laws such as HIPAA and corporate governance laws such as Sarbanes-Oxley.

- Unified communications, wireless and routing and switching solutions using Cisco Systems' products and services.

- Custom software applications and solutions development and support—We develop custom applications to customer specifications using industry standard platforms such as Microsoft.Net, Sharepoint and OnBase. We are a Microsoft Gold Partner.

- NOC managed IT services that include monitoring, reporting and management of alerts for the resolution and preventive general IT and IT security support tasks.

Markets, Marketing and Dependence on Certain Customers

We are an IT systems integrator and computer hardware and software VAR. We also provide technical services to achieve a value-add to our customers. We operate within the VAR sales channels of major computer hardware and software OEMs, primarily within the geographic areas of our sales offices and across the U.S. We provide innovative IT solutions, including a myriad of infrastructure products with customized integration consulting services and managed services to meet the unique requirements of our customers. We market the products we sell and services we provide through various sales offices in the U.S., Germany and the U.K. through our direct sales force (for a detailed list of our locations, see Item 2 of this Form 10-K).

Competition

The primary competition in the Service and System Integration segment are other VARs, ranging from small companies that number in the thousands, to large enterprises such as CDW, PC Connection, Insight, MoreDirect, Dimension Data, Bechtle AG and Computacenter. In addition, we compete directly with many of the companies who manufacture the third-party products that we sell including IBM, HP EMC, Hitachi and others. In the network management, security and storage systems integration services business, our competitors are extensive and vary to a certain degree in each of the geographical markets, but they include such competitors as HP/EDS, IBM and Cap Gemini.

Nearly all of our product offerings are available through other channels. Favorable competitive factors for the Service and System Integration segment include procurement capability, product diversity allowing for delivery of complete and custom solutions to our customers, strength of key partner relationships with the major IT OEMs, ability to supply unique and/or specialized needs of the SMB and LEB markets, strong knowledge of the IT products that we sell, ability to provide managed services through our NOC and the consulting integration services required to design and install the custom solutions that fit our customers' IT needs. Unfavorable competitive factors include low name recognition, limited geographic coverage and pricing.

Backlog

The backlog of customer orders and contracts for the Service and System Integration segment was approximately $6.3 million at September 30, 2010, as compared to $4.8 million at September 30, 2009. Our backlog can fluctuate greatly. These fluctuations can be due to the timing of receiving large orders for third- party products and/or IT services. It is expected that all of the customer orders in backlog will ship and/or be provided within the next twelve months.

Significant Customers

See Note 13 for detailed information regarding customers which comprised 10% or more of consolidated revenues for the years ended September 30, 2010 and 2009.

Employees

On September 30, 2010, we had approximately 139 full time equivalent employees worldwide for our consolidated operations. None of our employees are represented by a labor union and we had no work stoppages. We consider relations with our employees to be good.

Financial Information about Geographic Areas

Information regarding our sales by geographic area and percentage of sales based on the location to which the products are shipped or services are rendered are in Note 13 of our consolidated financial statements.

Item 1A. *Risk Factors*

Factors that may Affect Future Performance

This document contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Further, any forward-looking statement speaks only as of the date on which such statement is made and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made. As it is not possible to predict every new factor that may emerge, forward-looking statements should not be relied upon as a prediction of actual future financial condition or results. In response to competitive pressures or new product introductions, we may take certain pricing or marketing actions that could adversely affect our operating results. In addition, changes in the products and services mix may cause fluctuations in our gross margin. Due to the potential quarterly fluctuations in operating results, we believe that quarter-to-quarter comparisons of our results of operations are not necessarily an indicator of future performance.

Markets for our products and services are characterized by rapidly changing technology, new product introductions and short product life cycles. These changes can adversely affect our business and operating results. Our success will depend upon our ability to enhance our existing products and services and to develop and introduce, on a timely and cost effective basis, new products that keep pace with technological developments and address increasing customer requirements. The inability to meet these demands could adversely affect our business and operating results.

We Depend on a Small Number of Customers for a Significant Portion of our Revenue and Loss of any Customer Could Significantly Affect the Business

We are dependent on a small number of customers for a large portion of our revenues. Both the Systems and Service and System Integration segments are reliant upon a small number of significant customers, the loss of any one of which could have a material adverse effect on our business. A significant diminution in the sales to or loss of any of our major customers would have a material adverse effect on our business, financial condition and results of operations. In addition, our revenues are largely dependent upon the ability of our customers to have continued growth or need for services or to develop and sell products that incorporate our products. No assurance can be given that our customers will not experience financial or other difficulties that could adversely affect their operations and, in turn, our results of operations.

Our largest customer for fiscal year 2010 acquired one of our largest competitors and this customer also expects a downturn in business from one of its own customers that was creating significant demand for our products. These events could result in a significant reduction in our sales volume for fiscal 2011 and beyond.

Our largest customer for fiscal 2010 is a large hosting company that provides outsourcing of computer infrastructure, storage and communications resources. Our sales to this customer were $22.5 million for fiscal 2010, which comprised 24% of our total revenues. Two events occurred late in our fiscal year 2010 that may have a significant impact on our sales volume for fiscal 2011 and beyond.

First, our customer expects a downturn in business from one of its own customers that was creating significant demand for our products. This will likely have an unfavorable impact on our sales because our customer may no longer need to purchase the same volume of products from us in fiscal year 2011 as they did in fiscal year 2010.

Secondly, this customer has acquired a major competitor of ours that supplies some of the same IT networking equipment that we were supplying to them during fiscal 2010. We believe that in the future, it is likely that this customer will procure some or most of these products from our competitor rather than purchase them from us.

We Depend on Defense Business for a Significant Amount of our Revenue and the Loss or Decline of Existing or Future Defense Business Could Adversely Affect our Financial Results

Sales of our products and services to the defense market accounted for approximately 9% and 9% of our consolidated revenues and 99% and 99% of the Systems segment sales for the fiscal years ended September 30, 2010 and 2009, respectively. Reductions in government spending on programs that incorporate our products could have a material adverse effect on our business, financial condition and results of operations. Moreover, our subcontracts are subject to special risks, such as:

- delays in funding;
- ability of the government agency to unilaterally terminate the prime contract;
- reduction or modification in the event of changes in government policies or as the result of budgetary constraints or political changes;
- increased or unexpected costs under fixed price contracts; and
- other factors that are not under our control.

In addition, consolidation among defense industry contractors has resulted in fewer contractors with increased bargaining power relative to our bargaining power. No assurance can be given that such increased bargaining power will not adversely affect our business, financial condition or results of operations in the future.

Changes in government administration, as well as changes in the geo-political environment such as the current “War on Terrorism,” can have significant impact on defense spending priorities and the efficient handling of routine contractual matters. Such changes could have a negative impact on our business, financial condition, or results of operations in the future.

We Face Competition That Could Adversely Affect our Sales and Profitability

The markets for our products are highly competitive and are characterized by rapidly changing technology, frequent product performance improvements and evolving industry standards. Due to the rapidly changing nature of technology, new competitors may emerge of which we have no current awareness. Competitors may be able to offer more attractive pricing or develop products that could offer performance features that are superior to our products, resulting in reduced demand for our products. Such competitors could have a negative impact on our ability to win future business opportunities. There can be no assurance that a new competitor will not attempt to penetrate the various markets for our products and services. Their entry into markets historically targeted by us may have a material adverse effect on our business, financial condition and results of operations.

Slowdown in the Economy Can Affect our Revenue and Profitability

The uncertainty regarding the growth rate of the worldwide economies has caused companies to reduce capital investment and this may cause further reduction of demand for our products and services. These reductions have been particularly severe in the electronics and technology industries.

Our Operating Results May Fluctuate Significantly

Our operating results have fluctuated widely on a quarterly and annual basis during the last several years and we expect to experience significant fluctuations in future operating results. Many factors, some of which are beyond our control, have contributed to these fluctuations in the past and may continue to do so. Such factors include:

- sales in relatively large dollar amounts to a relatively small number of customers;
- competitive pricing programs and volume discounts;
- loss of customers;
- market acceptance of our products;
- product obsolescence;
- general economic conditions;
- change in the mix of products sold;
- obtaining or failure to obtain design wins for significant customer systems;
- timing of significant orders;
- delays in completion of internal product development projects;
- delays in shipping our products;
- delays in acceptance testing by customers;
- production delays due to quality programs with outsourced components;
- shortages of components;
- timing of product line transitions;
- declines of revenues from previous generations of products following announcement of replacement products containing more advance technology; and
- fixed nature of our expenditures on personnel, facilities and marketing programs.

We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful and should not be relied upon as indicative of our future performance. It is also possible that in some periods, our operating results may be below the expectations of securities analysts and investors. In such circumstances, the price of our common stock may decline.

We Rely on Single Sources for Supply of Certain Components and our Business may be Seriously Harmed if our Supply of any of These Components or Other Components is Disrupted

Several components used in our Systems products are currently obtained from sole-source suppliers. We are dependent on key vendors like Myricom, Inc. as well as Freescale Semiconductor, Inc. (“Freescale”) for many of our PowerPC line of processors. Generally, suppliers may terminate their purchase order with us without cause upon 30-days notice and may cease offering products to us upon 180-days notice. If Myricom or Freescale were to limit or reduce the sale of such components to us, or if these or other component suppliers to us, some of which are small companies, were to experience financial difficulties or other problems which could prevent them from supplying us with the necessary components, such events could have a material adverse effect on our business, financial condition and results of operations. These sole source and other suppliers are each subject to quality and performance issues, materials shortages, excess demand, reduction in capacity and other factors that may disrupt the flow of goods to us or our customers, which thereby may adversely affect our business and customer relationships.

We have no guaranteed supply arrangements with our suppliers and there can be no assurance that our suppliers will continue to meet our requirements. If our supply arrangements are interrupted, there can be no assurance that we would be able to find another supplier on a timely or satisfactory basis. Any shortage or interruption in the supply of any of the components used in our products, or the inability to procure these components from alternate sources on acceptable terms, could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that severe shortages of components will not occur in the future. Such shortages could increase the cost or delay the shipment of our products, which could have a material adverse effect on our business, financial condition and results of operations. Significant increases in the prices of these components would also materially adversely affect our financial performance since we may not be able to adjust product pricing to reflect the increase in component costs. We could

incur set-up costs and delays in manufacturing should it become necessary to replace any key vendors due to work stoppages, shipping delays, financial difficulties or other factors and, under certain circumstances, these costs and delays could have a material adverse effect on our business, financial condition and results of operations.

We Depend on Key Personnel and Skilled Employees and Face Competition in Hiring and Retaining Qualified Employees

We are largely dependent upon the skills and efforts of our senior management, managerial, sales and technical employees. None of our senior management personnel except Alex Lupinetti, our Chief Executive Officer, and Victor Dellovo, Vice President and General Manager of the Modcomp Division or other key employees are subject to any employment contracts. The loss of services of any of our executives or other key personnel could have a material adverse effect on our business, financial condition and results of operations. Our future success will depend to a significant extent on our ability to attract, train, motivate and retain highly skilled technical professionals. Our ability to maintain and renew existing engagements and obtain new business depends, in large part, on our ability to hire and retain technical personnel with the skills that keep pace with continuing changes in industry standards and technologies. The inability to hire additional qualified personnel could impair our ability to satisfy our growing client base, requiring an increase in the level of responsibility for both existing and new personnel. There can be no assurance that we will be successful in retaining current or future employees.

Our International Operations are Subject to a Number of Risks

We market and sell our products in certain international markets and we have established operations in the U.K. and Germany. Foreign-based revenue is determined based on the location to which the product is shipped or services are rendered and represented 30% and 36% of our total revenue for the fiscal years ended September 30, 2010 and 2009, respectively. If revenues generated by foreign activities are not adequate to offset the expense of establishing and maintaining these foreign subsidiaries and activities, our business, financial condition and results of operations could be materially adversely affected. In addition, there are certain risks inherent in transacting business internationally, such as changes in applicable laws and regulatory requirements, export and import restrictions, export controls relating to technology, tariffs and other trade barriers, longer payment cycles, problems in collecting accounts receivable, political instability, fluctuations in currency exchange rates, expatriation controls and potential adverse tax consequences, any of which could adversely impact the success of our international activities. A portion of our revenues are from sales to foreign entities, including foreign governments, which are primarily paid in the form of foreign currencies. There can be no assurance that one or more of such factors will not have a material adverse effect on our future international activities and, consequently, on our business, financial condition or results of operations.

Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal controls over financial reporting.

Effective internal control over financial reporting and disclosure controls and procedures are necessary in order for us to provide reliable financial and other reports and effectively prevent fraud. These types of controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the proper preparation of our financial statements, as well as regarding the timely reporting of material information. If we cannot maintain effective internal control or disclosure controls and procedures, or provide reliable financial or Securities and Exchange Commission ("SEC") reports or prevent fraud, investors may lose confidence in our reported financial information, our common stock could be subject to delisting on the stock exchange where it is traded, our operating results and the trading price of our common stock could suffer and we might become subject to litigation.

While our management will continue to review the effectiveness of our internal control over financial reporting and disclosure controls and procedures, there is no assurance that our disclosure controls and procedures or our internal control over financial reporting will be effective in accomplishing all control objectives, including the prevention and detection of fraud, all of the time.

To be Successful, We Must Respond to the Rapid Changes in Technology

Our future success will depend in part on our ability to enhance our current products and to develop new products on a timely and cost-effective basis in order to respond to technological developments and changing customer needs. The defense market, in particular, demands constant technological improvements as a means of gaining military advantage. Military planners historically have funded significantly more design projects than actual deployments of new equipment and those systems that are deployed tend to contain the components of the subcontractors selected to participate in the design process. In order to participate in the design of new defense electronics systems, we must be able to demonstrate our ability to deliver superior technological performance on a timely and cost-effective basis. There can be no assurance that we will be able to secure an adequate number of defense electronics design wins in the future, that the equipment in which our products are intended to function eventually will be deployed in the field, or that our products will be included in such equipment if it is eventually deployed.

The design-in process is typically lengthy and expensive and there can be no assurance that we will be able to continue to meet the product specifications of our customers in a timely and adequate manner. In addition, if we fail to anticipate or to respond adequately to changes in technology and customer preferences, or if there is any significant delay in product developments or introductions, this could have a material adverse effect on our business, financial condition and results of operations, including the risk of inventory obsolescence. Because of the complexity of our products, we have experienced delays from time to time in completing products on a timely basis. If we are unable to design, develop or introduce competitive new products on a timely basis, our future operating results would be adversely affected, particularly in our Systems segment. There can be no assurance that we will be successful in developing new products or enhancing our existing products on a timely or cost-effective basis, or that such new products or product enhancements will achieve market acceptance.

We Need to Continue to Expend Resources on Research and Development Efforts to Meet the Needs of our Customers

The industry in which our Systems segment competes is characterized by the need for continued investment in research and development. If we fail to invest sufficiently in research and development, our products could become less attractive to potential customers and our business and financial condition could be materially adversely affected. As a result of our need to maintain or increase our spending levels in this area and the difficulty in reducing costs associated with research and development, our operating results could be materially harmed if our revenues fall below expectations. In addition, as a result of CSPI's commitment to invest in research and development, spending as a percent of revenues may fluctuate in the future.

We May be Unable to Successfully Integrate Acquisitions

In order to achieve strategic objectives to maintain and grow our market position, we may have a need to acquire or make investments in complementary companies, products or technologies. Acquisitions may pose risks to our operations, including:

- problems and increased costs in connection with the integration of the personnel, operations, technologies or products of the acquired companies;
- unanticipated costs;
- diversion of management's attention from our core business;
- adverse effects on business relationships with suppliers and customers and those of the acquired company;
- acquired assets becoming impaired as a result of technical advancements or worse-than-expected performance by the acquired company;
- entering markets in which we have no, or limited, prior experience; and
- potential loss of key employees, particularly those of the acquired organization.

In addition, in connection with any acquisitions or investments we could:

- issue stock that would dilute existing shareholders' percentage of ownership;
- incur debt and assume liabilities;
- obtain financing on unfavorable terms;
- incur amortization expenses related to acquired intangible assets or incur large and immediate write-offs;
- incur large expenditures related to office closures of the acquired companies, including costs relating to termination of employees and leasehold improvement charges relating to vacating the acquired companies' premises; and
- reduce the cash that would otherwise be available to fund operations or to use for other purposes.

The failure to successfully integrate any acquisition or for acquisitions to yield expected results may negatively impact our financial condition and operating results. Any resulting impairment of goodwill would have a negative effect on results of operations.

Our Stock Price May Continue to be Volatile

Historically, the market for technology stocks has been extremely volatile. Our common stock has experienced and may continue to experience, substantial price volatility. The following factors could cause the market price of our common stock to fluctuate significantly:

- loss of a major customer;
- loss of a major supplier;

- the addition or departure of key personnel;
- variations in our quarterly operating results;
- announcements by us or our competitors of significant contracts, new products or product enhancements;
- acquisitions, distribution partnerships, joint ventures or capital commitments;
- regulatory changes;
- sales of our common stock or other securities in the future;
- changes in market valuations of technology companies; and
- fluctuations in stock market prices and volumes.

In addition, the stock market in general and the NASDAQ Global Market and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. These broad market and industry factors may materially adversely affect the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such companies.

Item 2. ***Properties***

Listed below are our principal facilities as of September 30, 2010. Management considers all facilities listed below to be suitable for the purpose(s) for which they are used, including manufacturing, research and development, sales, marketing, service and administration.

Location	Principal Use	Owned or Leased	Approximate Floor Area
Systems Segment Properties:			
CSP Inc.	Corporate Headquarters	Leased	21,500 S.F.
43 Manning Road	Manufacturing, Sales,		
Billerica, MA	Marketing and		
	Administration		
Service and Systems Integration Segment Properties:			
Modcomp, Inc.	Division Headquarters	Leased	15,482 S.F.
1500 S. Powerline Road	Sales, Marketing and		
Deerfield Beach, FL	Administration		
Modcomp, Inc.	Sales, Marketing and Service	Leased	1,356 S.F.
9155 South Dadeland Blvd, Suite 1112			
Miami, FL			
Modular Computer Systems GmbH	Sales, Marketing, Service	Leased	12,443 S.F.
Oskar-Jager-Strasse 50	and Administration		
D-50825 Koln			
Germany			
Modcomp, Ltd.	Sales, Marketing and	Leased	2,490 S.F.
12a Oaklands Business Park, Fishponds Road	Administration		
Wokingham Berkshire			
United Kingdom			
Modcomp Systemhaus GmbH	Sales, Marketing and Service	Leased	2,819 S.F.
Gartenstr. 23-27			
D-61352 Bad Homburg			
Germany			

Item 3. ***Legal Proceedings***

We are currently not a party to any material legal proceedings.

Item 4. **[Reserved]**

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market information . Our common stock is traded on the Nasdaq Global Market under the symbol CSPI. The following table provides the high and low sales prices of our common stock as reported on the Nasdaq Global Market for the periods indicated.

	2010		2009	
Fiscal Year:	**High**	**Low**	**High**	**Low**
1st Quarter	$ 4.06	$ 3.30	$ 5.27	$ 1.51
2nd Quarter	3.98	3.20	3.90	2.50
3rd Quarter	4.70	3.32	3.74	2.55
4th Quarter	4.65	3.85	4.25	3.38

Stockholders . We had approximately 87 holders of record of our common stock as of December 17, 2010. This number does not include stockholders for whom shares were held in a "nominee" or "street" name. We believe the number of beneficial owners of our shares of common stock (including shares held in street name) at that date was approximately 1,400.

Dividends . We have never paid any cash dividends on our common stock. Our present policy is to retain earnings to finance expansion and growth and no change in the policy is anticipated.

Share Repurchase Plans. The following table provides information with respect to shares of our common stock that we repurchased during the year ended September 30, 2010:

Month Ended	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans (1)**	**Maximum number of Shares that May Yet Be Purchased Under the Plans**
October 31, 2009	—	$ —	—	
November 30, 2009	—	—	—	
December 31, 2009	—	—	—	
January 31, 2010	—	—	—	
February 28, 2010	500	3.60	500	
March 31, 2010	10,693	3.62	10,693	
April 30, 2010	10,500	3.53	10,500	
May 31, 2010	4,200	4.08	4,200	
June 30, 2010	7,295	4.27	7,295	
July 31, 2010	4,739	4.25	4,739	
August 31, 2010	43,780	4.18	43,780	
September 30, 2010	13,783	4.21	13,783	
Total	95,490	$ 4.05	95,490	144,556

(1) All shares were purchased under publicly announced plans. For additional information about these publicly announced plans please refer to Note 12 of our financial statements.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The discussion below contains certain forward-looking statements related to statements concerning future revenues and future business plans. Actual results may vary from those contained in such forward-looking statements.

Overview of Fiscal 2011 Results of Operations

CSP Inc. operates in two segments:

- Systems—the Systems segment consists of our MultiComputer Division which designs, develops and manufactures signal processing computer platforms that are used primarily in military applications and the process control and data acquisition ("PCDA") proprietary hardware business of our Modcomp subsidiary.

- Service and System Integration—the Service and System Integration segment includes the computer systems' maintenance and integration services and third-party computer hardware and software products businesses of our Modcomp subsidiary.

Highlights include:

- Revenue increased by approximately $11.7 million, or 14%, to $95 million for the year ended September 30, 2010 versus $83.4 million for the year ended September 30, 2009.

- Operating income increased by approximately $6.1 million, to operating income of approximately $1.1 million for the year ended September 30, 2010 versus an operating loss of approximately $5.0 million for the year ended September 30, 2009.

- Net income was approximately $0.9 million, for the year ended September 30, 2010 versus a net loss of approximately $3.8 million for the year ended September 30, 2009, an improvement of $4.7 million.

- A non-cash goodwill impairment charge was taken in fiscal 2009 for $3.9 million which was the total value of goodwill on the Company's balance sheet prior to the impairment charge. This goodwill impairment charge was a significant factor in the increase in operating income and net income for fiscal 2010 versus fiscal 2009. There was no asset impairment charges in the fiscal year ended September 30, 2010.

- In fiscal year 2010 the Company adopted Accounting Standards Update ("ASU") 2009-13 - "Multiple-Deliverable Revenue Arrangements—a Consensus of the FASB Emerging Issues Task Force" ("ASU 2009-13") and ASU 2009-14 – "Certain Revenue Arrangements that Contain Software Elements." (ASU 2009-14"). The impact of adopting these new standards for the year ended September 30, 2010 was an increase in revenue of $3.5 million, an increase to net income of $284 thousand and an increase of $0.08 to both basic and fully diluted earnings per share.

- Net cash used in operating activities was approximately $1.9 million for the year ended September 30, 2010 compared to net cash provided by operating activities of $3.4 million for the year ended September 30, 2009.

The increase in revenues of $11.7 million was due to in large part to increased revenues in our Service and System Integration segment where revenues were up by approximately $11.3 million versus the year ended September 30, 2009. Revenues in fiscal 2010 in the Systems segment were $8.3 million compared with $8.0 million for fiscal 2009, which is an increase of approximately $0.3 million versus the prior year.

Also, in fiscal 2010, we were engaged in significant research and development efforts in the Systems segment making significant progress with on-going development of our newest product lines, the Fast Cluster Series 3000 and 4000 SERIES product lines, which are designed to provide what we believe is the most advanced interconnect technology available today. The 3000 and 4000 SERIES products are expected to provide our customers with another state-of-the-art, fully ruggedized open source system, which will be essential to our future growth opportunities.

We do not expect that Systems segment revenues for fiscal year 2011 will show growth compared to fiscal 2010. However we do expect to receive orders from existing programs for our 2000 SERIES products and high-margin royalties. We also expect to receive a significant order for our 3000 SERIES product line in fiscal year 2011.

Revenues in the Service and System Integration segment for fiscal 2010 were $86.7 million versus fiscal 2009 revenues of $75.4 million, which was an increase of $11.3 million. The U.S. operations of this segment experienced strong sales growth in fiscal 2010 of $12.9 million, a 27% increase over fiscal year 2009. This growth was due to in large part to revenues from a large web-site hosting company, which accounted for approximately $14.3 million of the increase. Offsetting the growth in the U.S. operation, revenues declined in the European operations (Germany and the U.K.) segment for fiscal year 2010 versus fiscal 2009 by approximately $1.5 million, or 6%. The decline was due primarily to the economic recession in Europe resulting in an overall decline in large orders in fiscal 2010 compared with fiscal 2009 from the division's largest customers.

Based on the current economic environment, we plan to manage the Service and System Integration segment assuming relatively weak demand in fiscal 2011. We plan to focus our attention and resources on higher-margin business and away from low margin business as we move forward. While this may put pressure on sales growth in fiscal 2011, we believe this strategy will accelerate profitable growth for the long term.

In addition, there were two significant adverse events concerning our largest customer for fiscal 2010, the web-site hosting company mentioned above. This customer provides outsourcing of computer infrastructure, storage and communications resources. Our sales to this customer were $22.5 million for fiscal 2010, which comprised 24% of our total revenues, and accounted for $14.3 million of the increase in sales for fiscal 2010 versus fiscal 2009.

First, our customer expects a downturn in business from one of its own customers that was creating significant demand for our products. This will likely have an unfavorable impact on our sales because our customer may no longer need to purchase the same volume of products from us in fiscal year 2011 as they did in fiscal year 2010.

Secondly, this customer has acquired a major competitor of ours that supplies some of the same IT networking equipment that we were supplying to them during fiscal 2010. We believe that in the future, it is likely that this customer will procure some or most of these products from our competitor rather than purchase them from us.

The following table sets forth certain information which is based on data from our Consolidated Statements of Operations:

	Percentage of sales		Period to Period
	Fiscal year ended September		Dollar increase (decrease)
	2010	2009	2010 compared to 2009
	(Dollar amounts in thousands)		
Sales	100.0%	100.0%	$ 11,661
Costs and expenses:			
Cost of sales	81.9%	82.1%	9,421
Engineering and development	2.1%	2.3%	(17)
Selling, general and administrative	14.8%	16.8%	127
Impairment on goodwill	—%	4.7%	(3,941)
Total costs and expenses	98.8%	105.9%	5,590
Operating income (loss)	1.2%	(5.9)%	6,071
Other income	—%	—%	34
Income (loss) before income taxes	1.2%	(5.9)%	6,105
Income tax expense (benefit)	0.2%	(1.4)%	1,408
Net income (loss)	1.0%	(4.5)%	$ 4,697

Results of Operations—2010 Compared to 2009

For the fiscal year ended September 30, 2010, sales increased to $95.0 million, compared to $83.4 million for fiscal year ended September 30, 2009. Net income for the year ended September 30, 2010 was $0.9 million, or $0.25 per diluted share compared with a net loss of $3.8 million, or $1.05 per diluted share for fiscal year ended September 30, 2009.

Revenue

The following table details the Company’s sales by geographical region for fiscal years September 30, 2010 and 2009:

	For the Year Ended					
	September 30, 2010	%	September 30, 2009	%	$ Increase/ (Decrease)	% Increase (Decrease)
	(Dollar amounts in thousands)					
Americas	$ 67,794	71%	$ 53,748	64%	$ 14,046	26%
Europe	26,118	28%	27,387	33%	(1,269)	(5)%
Asia Pacific	1,106	1%	2,222	3%	(1,116)	(50)%
Totals	$ 95,018	100%	$ 83,357	100%	$ 11,661	14%

The increase in Americas revenue for the year ended September 30, 2010 versus the year ended September 30, 2009 was primarily the result of the increase in revenues from the U.S. operations of the Service and System Integration segment which accounted for approximately $12.6 million of the increase. Additionally, sales from the Systems segment to U.S. customers increased by approximately $1.5 million, primarily resulting from an increase in royalty income, which is part of our service revenue. The decrease in sales in Europe was primarily the result of lower sales from the German and United Kingdom divisions of the Service and System Integration segment, where sales in Europe decreased by approximately $1.0 million and $0.6 million, respectively. The decrease in sales volume in constant U.S. dollars for the fiscal year ended September 30, 2010 versus the same year in 2009 was due to the reasons described below. Offsetting the decreases in European sales from the German and UK divisions, sales to Europe from the U.S. division of the Service and System Integration segment increased by approximately $0.3 million. The decrease in sales to Asia Pacific was the result of the decrease in sales into our program which supplies the Japanese defense market.

The following table details the Company's sales for products and services by operating segment for the fiscal years ended September 30, 2010 and 2009:

	Systems	Service and System Integration	Total	% of Total
	(Dollar amounts in thousands)			
2010				
Product	$ 4,888	$ 73,855	$ 78,743	83%
Services	3,423	12,852	16,275	17%
Total	$ 8,311	$ 86,707	$ 95,018	100%
% of Total	9%	91%	100%	
2009				
Product	$ 6,055	$ 61,182	$ 67,237	81%
Services	1,932	14,188	16,120	19%
Total	$ 7,987	$ 75,370	$ 83,357	100%
% of Total	10%	90%	100%	

	Systems	Service and System Integration	Total	% Increase
	(Dollar amounts in thousands)			
Increase (Decrease)				
Product	$ (1,167)	$ 12,673	$ 11,506	17%
Services	1,491	(1,336)	155	1%
Total	$ 324	$ 11,337	$ 11,661	14%
% Increase	4%	15%	14%	

As shown above, total revenues increased by approximately $11.7 million, or 14%, for the year ended September 30, 2010 compared to the same period of fiscal year 2009. Revenue in the Systems segment increased for the current year versus the prior year by approximately $0.3 million, while revenues in the Service and System Integration segment increased by approximately $11.3 million, resulting in the overall increase of approximately $11.7 million.

Product revenues increased by approximately $11.5 million, or 17% for the year ended September 30, 2010 compared to the year ended September 30, 2009. This change in product revenues was made up of an increase in product revenues in the Service and System Integration segment of approximately $12.7 million offset by a decrease in the Systems segment of approximately $1.2 million versus the prior year.

The increase in the Service and System Integration segment product sales of approximately $12.7 million was due primarily to increased product sales in the U.S. division of the segment of approximately $13.0 million, offset by a decrease of approximately $0.3 million in the segment's European divisions (Germany and the UK). The increase in the U.S. was attributable in large part to several large hardware orders which shipped to the US division's largest customer. Sales to this customer increased by approximately $14.3 million, comparing the year ended September 30, 2010 to the year ended September 30, 2009. In addition, sales to other major customers increased by a net total of approximately $3.5 million. Offsetting these increases, the loss of a major customer, which filed for bankruptcy protection during the prior fiscal year, resulted in a decrease in product sales of approximately $4.8 million, when comparing the years ended September 30, 2010 versus 2009. The decrease in Europe was due primarily to weak demand caused by the overall economic and technology sector slowdown which is continuing to put downward pressure on sales volume.

The decrease in the Systems segment product revenues of approximately $1.2 million for the year ended September 30, 2010 versus the comparable period in fiscal 2009 was the result of a decrease in product sales into our existing program which supples the Japanese defense market.

As shown in the table above, service revenues increased by approximately $0.2 million, or 1% for the year ended September 30, 2010 compared to the comparable year of fiscal 2009. Service revenue in the Systems segment increased by approximately $1.5 million, while service revenue in the Service and System Integration segment decreased by approximately $1.3 million.

The $1.5 million increase in Systems segment service revenue was the result of an increase in royalty revenue from Lockheed Martin which was approximately $3.0 million for the year ended September 30, 2010, versus approximately $1.6 million for the year ended September 30, 2009, for a total increase of approximately $1.4 million. In addition, service revenues to Raytheon increased by approximately $0.1 million in connection with the large product order which shipped in the second quarter of 2010, which is described above.

The decrease in the Service and System Integration segment service revenue was driven by lower service revenues from the segment's German and United Kingdom divisions which decreased by approximately $0.8 million, $0.5 million, respectively. These decreases in service revenue from our German and United Kingdom divisions were attributed to the unfavorable economic conditions which negatively impacted those divisions' revenue performance.

Cost of Sales, Gross Profit and Gross Margins

The following table details our cost of sales by operating segment for fiscal years ended September 30, 2010 and 2009:

	Systems	Service and system integration	Total
	(Dollar amounts in thousands)		
2010			
Cost of Sales:			
Product	$ 2,449	$ 64,936	$ 67,385
Services	306	10,136	10,442
Total	2,755	75,072	77,827
% of Total	4%	96%	100%
% of Sales	33%	86%	82%
Gross Profit:			
Product	$ 2,439	$ 8,919	$ 11,358
Services	3,117	2,716	5,833
Total	5,556	11,635	17,191
% of Total	32%	68%	100%
Gross Margins:			
Product	50%	12%	14%
Services	91%	21%	36%
Total	67%	13%	18%
2009			
Cost of Sales:			
Product	$ 3,134	$ 53,475	$ 56,609
Services	143	11,654	11,797
Total	3,277	65,129	68,406
% of Total	5%	95%	100%
% of Sales	41%	86%	82%
Gross Profit:			
Product	$ 2,921	$ 7,707	$ 10,628
Services	1,789	2,534	4,323
Total	4,710	10,241	14,951
% of Total	32%	68%	100%
Gross Margins:			
Product	48%	13%	16%
Services	93%	18%	27%
Total	59%	14%	18%
Increase (Decrease)			
Cost of Sales:			
Product	$ (685)	$ 11,461	$ 10,776
Services	163	(1,518)	(1,355)
Total	(522)	9,943	9,421
% Increase (decrease)	(16)%	15%	14%
% of Sales	(8)%	—%	—%
Gross Profit:			
Product	$ (482)	$ 1,212	$ 730
Services	1,328	182	1,510
Total	846	1,394	2,240
% Increase	18%	14%	15%
Change in Gross Margin percentage:			
Product	2%	(1)%	(2)%
Services	(2)%	3%	9%
Total	8%	(1)%	—%

Total cost of sales increased by $9.4 million when comparing the year ended September 30, 2010 versus the year ended September 30, 2009, which is an increase of 14%. The increase in costs of sales was consistent overall with the increase in sales which also increased by 14% when comparing the year ended September 30, 2010 with the year ended September 30, 2009.

Cost of sales in the Systems segment decreased by approximately $0.5 million comparing the current year versus the prior year despite the fact that sales in the systems segment increased by approximately $0.3 million. This is due to two reasons. First, for the year ended September 30, 2010, substantially all of the product sales were manufactured hardware versus 3 rd party parts that were resold for the year ended September 30, 2009. Manufactured products carry lower cost of sales as a percentage of selling price than do 3 rd party parts. Secondly, royalty sales to Lockheed Martin for the year ended September 30, 2010 exceeded royalty sales for the year ended September 30, 2009 by approximately $1.4 million. Royalty income has no cost of sales.

Cost of sales in the Service and System Integration segment increased by approximately $9.9 million, which is a 15% increase in cost of sales when comparing the current year versus the prior year. This increase in cost of sales was due to the increase in Service and System Integration segment sales as described above, which also increased by 15%.

The overall gross margin was unchanged at 18% comparing the year ended September 30, 2010 to the same period of fiscal 2009. While the gross margin improvement from 59% to 67% in the Systems segment was driven by the higher mix of manufactured products and royalty revenues as described above, the gross margin in the Service and System Integration segment decrease from 14% to 13% when comparing fiscal 2009 to 2010, due to lower product gross margins as shown in the table above. The increase in gross margin in the Systems segment and the slightly lower gross margin in the Service and System Integration segment, combined to result in the overall gross margin being unchanged.

Engineering and Development Expenses

The following table details engineering and development expenses by operating segment for fiscal years ended September 30, 2010 and 2009:

	2010	% of Total	2009	% of Total	$ Decrease	% Decrease
			(Dollar amounts in thousands)			
By Operating Segment:						
Systems	$ 1,953	100%	$ 1,970	100%	$ (17)	(1)%
Service and System Integration	—	—%	—	—%	—	—%
Total	$ 1,953	100%	$ 1,970	100%	$ (17)	(1)%

Engineering and development expenses remained virtually unchanged, for the year ended September 30, 2010 compared to the same period of fiscal 2009.

Selling, General and Administrative

The following table details selling, general and administrative (“SG&A”) expense by operating segment for fiscal years ending September 30, 2010 and 2009:

	2010	% of Total	2009	% of Total	$ Increase (Decrease)	% Increase (Decrease)
			(Dollar amounts in thousands)			
By Operating Segment:						
Systems	$ 3,919	28%	$ 3,367	24%	$ 552	16%
Service and System Integration	10,177	72%	10,602	76%	(425)	(4)%
Total	$ 14,096	100%	$ 13,969	100%	$ 127	1%

Total selling, general and administrative (“SG&A”) expenses increased by $0.1 million, or 1%, for the year ended September 30, 2010 compared to the corresponding year of fiscal 2009. The Systems segment SG&A expense increased for the year ended September 30, 2010 versus the prior year by approximately $0.6 million, due primarily to higher bonus expenses of approximately $0.5 million, as a result of higher revenues and operating profits and higher retirement plan expense of approximately $0.1million, due to a higher net pension benefit calculation. The Service and System Integration segment SG&A expense decreased for the year ended September 30, 2010 versus the prior year by approximately $0.4 million, due primarily to lower salaries of approximately $0.3 million due to headcount reductions and lower facilities expenses of approximately $0.1 million, due to reduction in facilities and lower depreciation expense.

Goodwill Impairment

The global economic downturn led to significant market volatility and a reduction in the Company's profitability in the second half of fiscal 2009. These changes to market and business conditions caused lower multiples and resulted in our lowering our projected forecast for 2010. The fair value of our Systems and Solutions reporting unit declined due to these deteriorating market and business conditions, which ultimately resulted in a $3.9 million non-cash impairment charge to our goodwill as of September 30, 2009. This impairment charge of $3.9 million was equal to the carrying value of the Company's goodwill prior to the impairment charge. There were no asset impairment charges for the year ended September 30, 2010.

Other Income/Expenses

The following table details Other Income/(Expense) for fiscal years ended September 30, 2010 and 2009:

	2010	% of Total	2009	% of Total	$ Increase (Decrease)	% Increase (Decrease)
			(Dollar amounts in thousands)			
Interest income	$ 61	871%	$ 225	(833)%	$ (164)	(73)%
Interest expense	(90)	(1,286)%	(112)	415%	22	20%
Foreign exchange loss	(1)	(14)%	(104)	385%	103	99%
Other income (expense), net	37	529%	(36)	133%	73	203%
Total other income (expense), net	$ 7	100%	$ (27)	100%	$ 34	126%

Total other income (expense), net, changed from other, net expense of $27 thousand to other net income of $7 thousand, resulting in a favorable change of approximately $34 thousand for the year of fiscal 2010 compared to the same year of fiscal 2009. This change was primarily due to a decrease in foreign exchange losses, which were greater in fiscal 2009 due to foreign exchange transaction losses which did not recur in fiscal 2010, and a favorable change in other, net of $73 thousand in fiscal 2010 versus 2009. These favorable variances were offset by a decrease in interest income of $164 thousand. Interest income in fiscal year 2010 was earned primarily on money market funds as opposed to auction rate securities ("ARS") which were held for a portion of fiscal 2009. The ARSs carried much higher interest rates than our money market funds. We divested our holdings in ARSs because of the preponderance of failed auctions in the ARS market.

Income Taxes

For the year ended September 30, 2010, the Company recorded an income tax provision of $0.2 million reflecting an effective income tax rate of 20% compared to an income tax benefit of $1.2 million for the fiscal year ended September 30, 2009, which reflected an effective tax benefit rate of 24%. The effective tax rate for the year ended September 30, 2010, was impacted favorably by the de-recognition of a liability of approximately $334 thousand for an unrecognized tax benefit, which the company had recorded pursuant to accounting principles regarding uncertain tax positions. This de-recognition was the result of the lapsing of the statute of limitations and the completion of an audit by the Internal Revenue Service, which did not result in any adjustment related to the uncertain tax position. The lower than statutory tax benefit rate for the fiscal year ended September 30, 2009 was due primarily to a valuation allowance established for a substantial portion of the deferred tax asset related to the goodwill impairment charge.

In assessing the realizability of deferred tax assets, we considered our taxable future earnings and the expected timing of the reversal of temporary differences. Accordingly, we have recorded a valuation allowance which reduces the gross deferred tax asset to an amount which we believe will more likely than not be realized. Our inability to project future profitability beyond fiscal year 2011 in the U.S. and cumulative losses incurred in recent years in the United Kingdom represent sufficient negative evidence to record a valuation allowance against certain deferred tax assets. We maintained a substantial valuation allowance against our United Kingdom deferred tax assets as we have experienced cumulative losses and do not have any indication that the operation will be profitable in the future to an extent that will allow us to utilize much of our net operating loss carryforwards. To the extent that actual experience deviates from our assumptions, our projections would be affected and hence our assessment of realizability of our deferred tax asset may change. Our German subsidiary has no valuation allowance recorded against their gross deferred tax assets since they have projected sufficient future income that we believe it is more likely than not to be realized.

Liquidity and Capital Resources

Our primary source of liquidity is our cash and cash equivalents, which decreased by approximately $3.4 million to $15.5 million as of September 30, 2010. This compares to $18.9 million as of September 30, 2009. At September 30, 2010, the Company's cash equivalents of $3.5 million were held in money market funds.

The significant uses of cash during the period were an increase in accounts receivable of approximately $4.9 million, decrease in deferred taxes of approximately $0.4 million, purchases of property and equipment of approximately $0.5 million, re-purchase of the Company's common stock of approximately $0.4 million and an unfavorable foreign exchange impact of $0.6 million. Significant sources of cash included net income of $0.9 million, an increase in deferred revenue of approximately $1.1 million, a decrease in refundable income taxes of approximately $0.4 million, an increase in income taxes payable of approximately $0.4 million, depreciation and amortization expense of approximately $0.5 million and equity plan compensation of $0.2 million.

If cash generated from operations is insufficient to satisfy working capital requirements, we may need to access funds through bank loans or other means. There is no assurance that we will be able to raise any such capital on terms acceptable to us, on a timely basis or at all. If we are unable to secure additional financing, we may not be able to complete development or enhancement of products, take advantage of future opportunities, respond to competition or continue to effectively operate our business.

Based on our current plans and business conditions, management believes that the Company's available cash and cash equivalents and cash generated from operations and investments will be sufficient to provide for the Company's working capital and capital expenditure requirements for the foreseeable future.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate our estimates, including those related to uncollectible receivables, inventory valuation, goodwill and intangibles, income taxes, deferred compensation, revenue recognition, retirement plans, restructuring costs and contingencies. We base our estimates on historical performance and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements: revenue recognition; valuation allowances, specifically the allowance for doubtful accounts and net deferred tax asset valuation allowance; inventory valuation; goodwill and intangibles; and pension and retirement plans.

Revenue recognition

The Company recognizes product revenue from customers at the time of transfer of title and risk of loss which is generally at the time of shipment, provided that persuasive evidence of an arrangement exists, the price is fixed or determinable and collectability of sales proceeds is reasonably assured. We include freight billed to our customers as sales and the related freight costs as cost of sales. The Company reduces revenue for estimated customer returns.

The Company recognizes revenue from software licenses when persuasive evidence of an arrangement exists, delivery of the product has occurred and the fee is fixed or determinable and collectability is probable. When delivery of services accompany software sales, and vendor specific objective evidence does not exist, and the only undelivered element is services that do not involve significant modification, or customization, of software, then the entire fee is recognized as the services are performed. If no pattern of performance is discernable, the fee is recognized straight line over the service period.

The Company also offers training, maintenance agreements and support services. The Company has established fair value on its training, maintenance and support services based on prices charged in separate sales to customers at prices established and published in its standard price lists. These prices are not discounted. Revenue from these service obligations under maintenance contracts is deferred and recognized on a straight-line basis over the contractual period, which is typically three to twelve months, if all other revenue recognition criteria have been met. Support services provided on a time and material basis are recognized as provided if all of the revenue recognition criteria have been met for that element and the support services have been provided. Training revenue is recognized when performed.

In certain multiple-element revenue arrangements, the Company is obligated to deliver to its customers multiple products and/or services ("multiple elements"). In these transactions, the Company allocates the total revenue to be earned under the arrangement among the various elements based on the Company's best estimate of the standalone selling price. The allocation is based on vendor specific objective evidence, third party evidence or estimated selling price when that element is sold separately. The Company recognizes revenue related to the delivered products or services only if the above revenue recognition criteria are met and the delivered element has standalone value.

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-13 - "Multiple-Deliverable Revenue Arrangements—a Consensus of the FASB Emerging Issues Task Force" ("ASU 2009-13") and ASU 2009-14 – "Certain Revenue Arrangements that Contain Software Elements." ('ASU 2009-14"). ASU 2009-13 amends existing revenue recognition accounting principles regarding multiple-deliverable revenue arrangements. The consensus provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and how the consideration should be allocated. This guidance eliminates the requirement to establish verifiable, objective evidence of the fair value of undelivered products and services and also eliminates the residual method of allocating arrangement consideration. The new guidance provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Under the previous guidance, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This pronouncement is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted.

ASU 2009-14 removes the sale of tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality from the scope of software revenue recognition guidance.

Adoption of the new revenue recognition guidance has had an impact on the pattern and timing of revenue recognition. In some cases, revenue that would have been deferred pursuant to the previously existing multiple-element revenue recognition guidance, has been recognized pursuant to the newly issued guidance. This is because in some cases we are not able to determine VSOE or third-party evidence of the service element in our arrangements. Under the new guidance, because the requirement to determine fair value of undelivered elements has been eliminated, and we may use estimated selling price to allocate revenue to elements in an arrangement, we are now more likely to be able to separate arrangements into separate units of accounting, and thereby recognize the delivered elements (typically product revenue) without having delivered the other elements in the arrangements (typically services). The impact of adopting this new accounting guidance on revenue for year ended September 30, 2010 was that $3.5 million in additional revenue was recognized under the newly adopted guidance that wouldn't have been recognized had we not adopted the new standards. The impact of adopting this new accounting guidance on net income and EPS was an increase to net income of $284 thousand for the year ended September 30, 2010, and an increase of $0.08, to both basic and fully diluted earnings per share for the year ended September 30, 2010.

The Company has adopted these standards as of October 1, 2009.

Description of multiple-deliverable arrangements and Software Elements

In many cases, our multiple-deliverable arrangements involve initial shipment of hardware (including tangible products that include software and non-software elements), software products and subsequent delivery of services which add value to the products that have been shipped. In some instances, services are performed prior to product shipment, but more typically services are performed subsequent to shipment of the hardware products. The timing of the delivery and performance of deliverables may vary case-by-case. We evaluate whether we can determine vendor-specific objective evidence ("VSOE") or third-party evidence to allocate revenue among the various elements in an arrangement. When VSOE or third-party evidence cannot be determined, we use estimated selling prices to allocate revenue to the various elements. Estimated selling prices are determined using the targeted gross margin for each element and calculating the gross revenue for each element that would have been required to achieve the targeted gross margin, and allocating revenue to each element based on those relative values.

Typically, product revenue, which may consist of hardware (including tangible products that include software and non-software elements) and/or software elements, are recognized upon shipment, or when risk of loss passes to the customer. Services elements are typically recognized upon completion for fixed-price service arrangements, and as services are performed for time and materials service arrangements. For software elements that include services that do not involve significant production, modification or customization, and VSOE does not exist, the entire fee allocable to that element is recognized as the services are performed. If no pattern of performance is discernable, the fee is recognized straight line over the service period. The period over which services are delivered typically ranges from approximately sixty to ninety days, or longer in some cases.

For tangible products containing software components and non-software components, we determine whether these elements function together to deliver the tangible product essential functionality. If the software and non-software components of the tangible product function together to deliver the tangible product's essential functionality, software revenue recognition guidance is not applied, but rather other appropriate revenue recognition guidance as described above.

The following policies are applicable to the Company's major categories of segment revenue transactions:

Systems Segment Revenue

Revenue in the Systems Segment consists of product and service revenue. Generally, product revenue is recognized when product is shipped, provided that all revenue recognition criteria are met. Service revenue consists principally of royalty revenue related to the licensing of certain of the Company's proprietary system technology and repair services. The Company recognizes royalty revenues upon notification by the customer of shipment of the systems produced pursuant to the royalty agreement. Repair service revenue is generally based upon a fixed price and is recognized upon completion of the repair.

From time to time we enter into multiple element arrangements in the Systems Segment. We follow the accounting policies described above for such arrangements.

The Company's standard sales agreements generally do not include customer acceptance provisions. However, in certain instances when arrangements include a customer acceptance provision or there is uncertainty about customer acceptance, revenue is deferred until the Company has evidence of customer acceptance. Customers generally do not have the right of return, once customer acceptance has occurred.

Service and System Integration Segment Revenue

Revenue in the Service and System Integration Segment consists of product and service revenue.

Revenue from the sale of third-party hardware and third-party software is recognized when the revenue recognition criteria are met. The Company's standard sales agreements generally do not include customer acceptance provisions. However, in certain instances when arrangements include a customer acceptance provision or there is uncertainty about customer acceptance, revenue is deferred until the Company has evidence of customer acceptance. Customers do not have the right of return.

Service revenue is comprised of information technology consulting development, installation, implementation and maintenance services. We follow the accounting policies described above for service transactions. For arrangements that include a customer acceptance provision, or if there is uncertainty about customer acceptance of services rendered, revenue is deferred until the Company has evidence of customer acceptance.

For sales that are financed by customers through leases with a third party when risk of loss does not pass to the customer until the lease is executed, revenue is recognized upon cash receipt and execution of the lease.

We sell certain third party service contracts, which are evaluated to determine whether the sale of such service revenue should be recorded as gross sales or net sales in accordance with the sales recognition criteria as required by U.S. Generally Accepted Accounting Principles ("GAAP"). We must determine whether we act as a principal in the transaction and assume the risks and reward of ownership or if we are simply acting as an agent or broker. Under gross sales recognition, the entire selling price is recorded in sales and our cost to the third-party service provider or vendor is recorded in cost of goods sold. Under net sales recognition, the cost to the third-party service provider or vendor is recorded as a reduction to sales resulting in net sales equal to the gross profit on the transaction and there are no costs of goods sold. We use the gross sales recognition method for the third party service contracts that we sell, as we have determined that we act as a principal in these sales transactions.

Engineering and Development Expenses

Engineering and development expenses include payroll, employee benefits, stock-based compensation and other headcount-related expenses associated with product development. Engineering and development expenses also include third-party development and programming costs. We consider technological feasibility for our software products is reached upon the release of the software and, accordingly, no internal software development costs have been capitalized.

Product Warranty Accrual

Our product sales generally include a 90-day to one-year hardware warranty. At time of product shipment, we accrue for the estimated cost to repair or replace potentially defective products. Estimated warranty costs are based upon prior actual warranty costs for substantially similar products.

Income Taxes

We use the asset and liability method of accounting for income taxes whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We also reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This methodology requires estimates and judgments in the determination of the recoverability of deferred tax assets and in the calculation of certain tax liabilities. Valuation allowances are recorded against the gross deferred tax assets that management believes, after considering all available positive and negative objective evidence, historical and prospective, with greater weight given to historical evidence, that it is more likely than not that these assets will not be realized.

In addition, we are required to recognize in the consolidated financial statements, those tax positions determined to be more-likely-than-not of being sustained upon examination, based on the technical merits of the positions as of the reporting date. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are recognized. This is a different standard for recognition than was previously required. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. Upon adoption of this standard on October 1, 2007, we were required to adjust our financial statements to reflect only those tax positions that are more-likely-than-not to be sustained. Any necessary adjustment was recorded directly to opening retained earnings in the period of adoption.

In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions. The Company records liabilities for estimated tax obligations in the U.S. and other tax jurisdictions. These estimated tax liabilities include the provision for taxes that may become payable in the future.

Inventory

Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out method. The recoverability of inventories is based upon the types and levels of inventories held, forecasted demand, pricing, competition and changes in technology. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at amounts that have been billed to customers less an allowance for doubtful accounts. Allowances for doubtful accounts are recorded for the estimated losses resulting from the inability of our customers to make required payments. The estimates for allowance for doubtful accounts are based on the length of time the receivables are past due, current business environment and our historical experience. If the financial condition of our customers were to deteriorate, resulting in impairment of their ability to make payments, additional allowances may be required.

Goodwill and Intangible Assets

We test goodwill annually for impairment and more frequently if events and circumstances indicate that the asset might be impaired. We recognize impairment losses to the extent that the carrying amount of goodwill exceeds its fair value. The impairment determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of the reporting unit and compares it to its carrying amount. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The Company's policy is to perform its annual impairment testing for all reporting units as of the end of each fiscal year. For the year ended September 30, 2009, we recorded a goodwill impairment charge for approximately $3.9 million. There was no impairment of goodwill for the year ended September 30, 2010. All goodwill was written off in the prior year.

Intangible assets other than goodwill that are not subject to amortization are also required to be tested annually, or more frequently if events or circumstances indicate that the asset may be impaired. We did not have intangible assets with indefinite lives other than goodwill at any time during the two years ended September 30, 2010. Intangible assets subject to amortization are amortized over their estimated useful lives, generally three to ten years, and are carried at cost, less accumulated amortization. The remaining useful lives of intangible assets are evaluated on an annual basis. Intangible assets subject to amortization are also tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the fair value of an intangible asset subject to amortization is determined to be less than its carrying value, then an impairment charge is recorded to write down that asset to its fair value.

Pension and Retirement Plans

The funded status of pension and other postretirement benefit plans is recognized prospectively on the balance sheet. Gains and losses, prior service costs and credits and any remaining transition amounts that have not yet been recognized through pension expense will be recognized in accumulated other comprehensive income, net of tax, until they are amortized as a component of net periodic pension/postretirement benefits expense. Additionally, plan assets and obligations are measured as of our fiscal year-end balance sheet date (September 30).

We have defined benefit and defined contribution plans in the U.K., Germany and in the U.S. In the U.K. and Germany, the Company provides defined benefit pension plans for certain employees and former employees and defined contribution plans for the majority of the employees. The defined benefit plans in both the U.K. and Germany are closed to newly hired employees and have been for the two years ended September 30, 2010. In the U.S., the Company also provides defined contribution plans that cover most employees and supplementary retirement plans to certain employees and former employees who are now retired. These supplementary retirement plans are also closed to newly hired employees and have been for the two years ended September 30, 2010. These supplemental plans are funded through whole life insurance policies. The Company expects to recover all insurance premiums paid under these policies in the future, through the cash surrender value of the policies and any death benefits or portions thereof to be paid upon the death of the participant. These whole life insurance policies are carried on the balance sheet at their cash surrender values as they are owned by the Company and are not assets of the defined benefit plans. In the U.S., the Company also provides for officer death benefits and post-retirement health insurance benefits through supplemental post-retirement plans to certain officers. The Company also funds these supplemental plans' obligations through whole life insurance policies on the officers.

Pension expense is based on an actuarial computation of current future benefits using estimates for expected return on assets, expected compensation increases and applicable discount rates. Management has reviewed the discount rates with our consulting actuary and investment advisor and concluded they were reasonable. A decrease in the expected return on pension assets would increase pension expense. Expected compensation increases are estimated based on historical and expected increases in the future. Increases in estimated compensation increases would result in higher pension expense while decreases would lower pension expense. Discount rates are selected based upon rates of return on high quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefit. A decrease in the discount rate would result in greater pension expense while an increase in the discount rate would decrease pension expense.

The Company funds its pension plans in amounts sufficient to meet the requirements set forth in applicable employee benefits laws and local tax laws. Liabilities for amounts in excess of these funding levels are accrued and reported in the consolidated balance sheets.

In December 2008, the FASB issued new accounting guidance entitled, "Employers' Disclosures about Postretirement Benefit Plan Assets". The new guidance requires additional disclosures about plan assets for sponsors of defined benefit pension and postretirement plans including expanded information regarding investment strategies, major categories of plan assets, and concentrations of risk within plan assets. Additionally, this guidance requires disclosures similar to those required under the fair value accounting principles with respect to the fair value of plan assets such as the inputs and valuation techniques used to measure fair value and information with respect to classification of plan assets in terms of the hierarchy of the source of information used to determine their value. These disclosures are required for the period covered by this report and are included in Note 10.

Recent Accounting Pronouncements

In April 2010, the FASB codified the consensus reached in Emerging Issues Task Force Issue No. 08-09, "Milestone Method of Revenue Recognition." FASB ASU No. 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. FASB ASU No. 2010-17 is effective for fiscal years beginning on or after June 15, 2010 (Fiscal year ending September 30, 2011 for the Company), and is effective on a prospective basis for milestones achieved after the adoption date. The Company does not expect this ASU will have a material impact on its financial position or results of operations when it adopts this update on October 1, 2010.

Management does not anticipate that other recently issued accounting pronouncements will have a material impact on the Company's financial statements.

Inflation and Changing Prices

Management does not believe that inflation and changing prices had significant impact on sales, revenues or income (loss) during fiscal 2010 or 2009. There is no assurance that the Company's business will not be materially and adversely affected by inflation and changing prices in the future.

Item 8. ***Financial Statements and Supplementary Data***

The consolidated financial statements are included herein.

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Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. Controls and Procedures

Evaluation of Controls and Procedures

Disclosure Controls and Procedures. The Company evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2010. Our chief executive officer, our chief financial officer and other members of our senior management team supervised and participated in this evaluation. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2010, the Company's chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed by or under the supervision of a company's principal executive and principal financial officers and effected by a company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. It includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of a company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of a company are being made only in accordance with authorizations of management and the board of directors of a company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on its financial statements.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2010. In making its assessment of internal control, management used the criteria described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission.

As a result of its assessment, management has concluded that the Company's internal control over financial reporting was effective as of September 30, 2010.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2010 was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that call for the Company to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting.

During the quarter ended September 30, 2010, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting other than those discussed above.

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

We incorporate the information required by this item by reference to the sections captioned "Nominees for Election", "Our Board of Directors", "Our Executive Officers", "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance" in our Schedule 14A Proxy Statement for our 2011 Annual Meeting of Stockholders, to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2010.

Item 11. ***Executive Compensation***

We incorporate the information required by this item by reference to the sections captioned "Compensation of Executive Officers" and "Compensation of Non-Employee Directors" in our Schedule 14A Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2010.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Securities Authorized for Issuance Under Equity Compensation Plans.

The equity compensation plans approved by our stockholders consist of the CSP, Inc. 1991 Incentive Stock Option Plan, 1997 Incentive Stock Option Plan, 2003 Stock Incentive Plan, 2007 Stock Incentive Plan and 1997 Employee Stock Purchase Plan (the "ESPP"). The equity compensation plan not approved by our stockholders is a stock option plan for certain employees of Modcomp. Stock options issued under this plan were granted at the fair market value of our common stock on the date of grant, have a term of ten years and vest at the rate of 25% per year starting one year from the date of grant. In fiscal 2009 and 2010, the Company granted certain officers including its Chief Executive Officer and non-employee directors shares of non-vested common stock instead of stock options. The vesting periods for the officers', the Chief Executive Officer's and the directors' non-vested stock awards are four years, three years and one year, respectively. The following table sets forth information as of September 30, 2010 regarding the total number of securities outstanding under these stock option and stock purchase plans.

	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights, and non-vested shares issued	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	(1)(2) 289,075	$ 7.67	191,954(3)
Equity compensation plans not approved by security holders	40,000	$ 2.70	—
Total	329,075	$ 6.95	191,954

(1) Does not include purchase rights under the ESPP, as the purchase price and number of shares to be purchased under the ESPP are not determined until the end of the relevant purchase period.

(2) Includes 54,300 non-vested shares issued.

(3) Includes 167,950 shares available for future issuance under the incentive stock and stock option plans and 24,044 under the ESPP.

We incorporate additional information required by this Item by reference to the section captioned "Security Ownership of Certain Beneficial Owners and Management" in our Schedule 14A Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2010.

Item 13. ***Certain Relationships and Related Transactions and Director Independence***

We incorporate the information required by this item by reference to the section captioned "Corporate Governance" in our Schedule 14A Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2010.

Item 14. ***Principal Accountant Fees and Services***

We incorporate the information required by this item by reference to the section captioned "Fees for Professional Services" and "Pre-approval Policies and Procedures" in our Schedule 14A Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2010.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) (1) Financial statements filed as part of this report:

Consolidated Balance Sheets as of September 30, 2010 and 2009

Consolidated Statements of Operations for the years ended September 30, 2010 and 2009

Consolidated Statements of Shareholders' Equity and Comprehensive income (loss) for the years ended September 30, 2010 and 2009

Consolidated Statements of Cash Flows for the years ended September 30, 2010 and 2009

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

All other financial statements and schedules not listed have been omitted since the required information is included in the consolidated financial statements or the notes thereto included in Item 8, or is not applicable, material or required.

(3) Exhibits

Exhibit No.	Description	Filed with this Form 10-K	Incorporated by Reference		
			Form	**Filing Date**	**Exhibit No.**
3.1	Articles of Organization and amendments thereto		10-K	December 26, 2007	3.1
3.2	By-laws, as amended January 8, 1998		10-K	December 26, 2007	3.2
10.1	Form of Employee Invention and Non-Disclosure Agreement		10-K	November 22, 1996	10.3
10.2	CSPI Supplemental Retirement Income Plan		10-K	December 29, 2008	10.2
10.4*	1991 Incentive Stock Option Plan		10-K	December 29, 2008	10.4
10.5*	Employment Agreement with Alexander R. Lupinetti dated September 12, 1996		10-K	November 27, 1996	10.14
10.6*	1997 Incentive Stock Option Plan, as amended		DEF 14A	December 1, 1997	A
10.7*	1997 Employee Stock Purchase Plan		DEF 14A	December 1, 1997	B
10.8*	2003 Stock Incentive Plan		DEF 14A	December 23, 2003	B
10.9*	2007 Stock Incentive Plan		DEF 14A	March 30, 2007	B
10.10*	2011 Variable Compensation (Executive Bonus) and Base Programs dated November 9, 2010	X			
10.11*	Form of Change of Control Agreement with Alexander R. Lupinetti dated January 11, 2008	X			
10.12*	Form of Change of Control Agreement with Gary W. Levine and William E. Bent Jr. each dated January 11, 2008				
10.13*	Form of Change of Control Agreement with Robert A. Stellato dated January 11, 2008	X			
10.14*	Employment Agreement with Victor Dellovo dated April 11, 2003	X			
21.1	Subsidiaries	X			
23.1	Consent of McGladrey & Pullen, LLP, Independent Registered Public Accounting Firm	X			
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			

* Management contract or compensatory plan.

SIGNATURES

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

CSP INC.

Date: December 22, 2010

By: /s/ A LEXANDER R. L UPINETTI
Alexander R. Lupinetti
Chief Executive Officer, President and Chairman

Pursuant to the requirements of 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.

Name	Title	Date
/s/ A LEXANDER R. L UPINETTI **Alexander R. Lupinetti**	Chief Executive Officer, President and Chairman	December 22, 2010
/s/ G ARY W. L EVINE **Gary W. Levine**	Chief Financial Officer (Principal Financial Officer)	December 22, 2010
/s/ R OBERT A. S TELLATO **Robert A. Stellato**	Vice President of Finance (Chief Accounting Officer)	December 22, 2010
/s/ J. D AVID L YONS **J. David Lyons**	Director	December 22, 2010
/s/ C. S HELTON J AMES **C. Shelton James**	Director	December 22, 2010
/s/ R OBERT M. W ILLIAMS **Robert M. Williams**	Director	December 22, 2010
/s/ C HRISTOPHER J. H ALL **Christopher J. Hall**	Director	December 22, 2010

CSP INC.

ANNUAL REPORT ON FORM 10-K

Item 8
Financial Statements
Years Ended September 30, 2010 and 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
CSP Inc.

We have audited the accompanying consolidated balance sheets of CSP, Inc. and subsidiaries as of September 30, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the years 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 audits.

We conducted our audits 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. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CSP, Inc. and subsidiaries as of September 30, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, CSP, Inc. and subsidiaries has changed its method of recognizing certain revenues in 2010 due to the adoption of Accounting Standards Update ("ASU") 2009-13 – *Multiple-Deliverable Revenue Arrangements-a Consensus of the FASB Emerging Issues Task Force* and ASU 2009-14 – *Certain Revenue Arrangements that Contain Software Elements.*

/s/ McGladrey & Pullen, LLP

Boston, Massachusetts
December 22, 2010

CSP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except par value)

	September 30, 2010	September 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,531	$ 18,904
Accounts receivable, net of allowance for doubtful accounts of $288 in 2010 and $298 in 2009	12,190	7,410
Inventories	5,862	5,935
Refundable income taxes	721	1,160
Deferred income taxes	124	633
Other current assets	1,523	1,824
Total current assets	35,951	35,866
Property, equipment and improvements, net	873	832
Other assets:		
Intangibles, net	687	800
Deferred income taxes	880	275
Cash surrender value of life insurance	2,689	2,460
Other assets	299	253
Total other assets	4,555	3,788
Total assets	$ 41,379	$ 40,486
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 10,049	$ 10,530
Deferred revenue	3,078	2,059
Pension and retirement plans	441	447
Deferred income taxes	—	96
Income taxes payable	380	25
Total current liabilities	13,948	13,157
Pension and retirement plans	8,928	8,120
Deferred income taxes	—	146
Capital lease obligation	24	48
Other long term liabilities	—	320
Total liabilities	22,900	21,791
Commitments and contingencies		
Shareholders' equity:		
Common stock, $.01 par; authorized, 7,500 shares; issued and outstanding 3,520 and 3,542 shares, respectively	35	36
Additional paid-in capital	11,280	11,325
Retained earnings	12,516	11,602
Accumulated other comprehensive loss	(5,352)	(4,268)
Total shareholders' equity	18,479	18,695
Total liabilities and shareholders' equity	$ 41,379	$ 40,486

See accompanying notes to consolidated financial statements.

CSP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except for per share data)

	Years ended September 30, 2010	Years ended September 30, 2009
Sales:		
Product	$ 78,743	$ 67,237
Services	16,275	16,120
Total sales	95,018	83,357
Cost of sales:		
Product	67,385	56,609
Services	10,442	11,797
Total cost of sales	77,827	68,406
Gross profit	17,191	14,951
Operating expenses:		
Engineering and development	1,953	1,970
Selling, general and administrative	14,096	13,969
Goodwill impairment	—	3,941
Total operating expenses	16,049	19,880
Operating income (loss)	1,142	(4,929)
Other income (expense):		
Interest income	61	225
Interest expense	(90)	(112)
Foreign exchange loss	(1)	(104)
Other income (expense), net	37	(36)
Total other income (expense), net	7	(27)
Income (loss) before income tax	1,149	(4,956)
Income tax expense (benefit)	235	(1,173)
Net income (loss)	$ 914	$ (3,783)
Net income (loss) attributable to common stockholders	$ 905	$ (3,765)
Net income (loss) per share-basic	$ 0.26	$ (1.05)
Weighted average shares outstanding-basic	3,538	3,577
Net income (loss) per share-diluted	$ 0.25	$ (1.05)
Weighted average shares outstanding-diluted	3,567	3,577

See accompanying notes to consolidated financial statements.

CSP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
Years ended September 30, 2010 and 2009
(Amounts in thousands)

	Shares	Amount	Additional paid-in Capital	Retained Earnings	Accum-ulated other compre-hensive loss	Total Share-holders' Equity	Compre-hensive loss
Balance September 30, 2008	**3,758**	**$ 38**	**$ 11,812**	**$ 15,385**	**$ (3,287)**	**$ 23,948**	
Comprehensive loss:							
Net loss	—	—	—	(3,783)	—	(3,783)	$ (3,783)
Other comprehensive loss:							
Effect of foreign currency translation	—	—	—	—	(302)	(302)	(302)
Increase in minimum pension liability	—	—	—	—	(679)	(679)	(679)
Total comprehensive loss							$ (4,764)
Stock-based compensation	—	—	243	—	—	243	
Issuance of shares under employee stock purchase plan	65	1	179	—	—	180	
Restricted stock shares issued	23	—	22	—	—	22	
Purchase of common stock	(304)	(3)	(931)	—	—	(934)	
Balance September 30, 2009	**3,542**	**$ 36**	**$ 11,325**	**$ 11,602**	**$ (4,268)**	**$ 18,695**	
Comprehensive loss:							
Net income	—	—	—	914	—	914	$ 914
Other comprehensive loss:							
Effect of foreign currency translation	—	—	—	—	(282)	(282)	(282)
Increase in minimum pension liability	—	—	—	—	(802)	(802)	(802)
Total comprehensive loss							$ (170)
Stock-based compensation	—	—	154	—	—	154	
Issuance of shares under employee stock purchase plan	42	—	114	—	—	114	
Restricted stock shares issued	31	—	69	—	—	69	
Purchase of common stock	(95)	(1)	(382)	—	—	(383)	
Balance September 30, 2010	**3,520**	**$ 35**	**$ 11,280**	**$ 12,516**	**$ (5,352)**	**$ 18,479**	

See accompanying notes to consolidated financial statements.

CSP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Years ended September 30, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 914	$ (3,783)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	399	466
Amortization of intangibles	113	113
Loss on disposal of property, net	12	119
Foreign exchange loss	1	104
Goodwill impairment charge	—	3,941
Non-cash changes in accounts receivable	(8)	127
Deferred income taxes	(360)	(964)
Increase in cash surrender value life insurance	(104)	(86)
Stock based compensation expense	223	265
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(4,914)	3,863
Decrease (increase) in inventories	58	2,175
Decrease (increase) in refundable income taxes	405	534
Decrease (increase) in other current assets	235	(458)
Decrease (increase) in other assets	(45)	147
Increase (decrease) in accounts payable and accrued expenses	(183)	(834)
Increase (decrease) in deferred revenue	1,108	(1,621)
Increase (decrease) in pension and retirement plans	230	(34)
Increase (decrease) in income taxes payable	350	(709)
Increase (decrease) in other liabilities	(365)	—
Net cash provided by (used in) operating activities	(1,931)	3,365
Cash flows from investing activities:		
Purchases of investments	(1,100)	—
Sale of investments	1,100	5,000
Life insurance premiums paid	(124)	(124)
Purchases of property, equipment and improvements	(483)	(402)
Net cash provided by (used in) investing activities	(607)	4,474
Cash flows from financing activities:		
Proceeds (payments) on short-term borrowings	—	(1,501)
Proceeds from issuance of shares under employee stock purchase plan	114	180
Purchase of common stock	(383)	(934)
Net cash used in financing activities	(269)	(2,255)
Effects of exchange rate on cash	(566)	(174)
Net increase (decrease) in cash and cash equivalents	(3,373)	5,410
Cash and cash equivalents, beginning of year	18,904	13,494
Cash and cash equivalents, end of year	$ 15,531	$ 18,904
Supplementary cash flow information:		
Cash paid for income taxes	$ (535)	$ (613)
Cash paid for interest	$ (89)	$ (105)

See accompanying notes to consolidated financial statements.

CSP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2010 and 2009

Organization and Business

CSP Inc. ("CSPI" or "the Company" or "we" or "our") was founded in 1968 and is based in Billerica, Massachusetts. To meet the diverse requirements of its industrial, commercial and defense customers worldwide, CSPI and its subsidiaries develop and market IT integration solutions and high-performance cluster computer systems. The Company operates in two segments, its Systems segment and its Service and System Integration segment.

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company accounts and transactions have been eliminated.

Foreign Currency Translation

The U.S. Dollar is the reporting currency for all periods presented. The financial information for entities outside the United States is measured using the local currency as the functional currency. Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average rates in effect during the period. The resulting translation adjustment is reflected as accumulated other comprehensive income (loss), a separate component of shareholders' equity on the consolidated balance sheets. The translation adjustment for intercompany foreign currency loans that are of a long-term-investment nature is also reflected as accumulated other comprehensive income (loss). Currency transaction gains and losses are recorded as other income (expense) in the statements of operations.

Cash Equivalents

For purposes of the consolidated statement of cash flows, highly liquid investments with original maturities of three months or less at the time of acquisition are considered cash equivalents.

Fair Value Measurements

We follow current accounting standards for fair value measurements, which define fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" and establish a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Investments

The Company classifies its investments at the time of purchase as either held-to-maturity or available-for-sale. Held-to-maturity securities are those investments that the Company has the ability and intent to hold until maturity. Held-to-maturity securities are recorded at cost, adjusted for the amortization of premiums and discounts, which approximates market value at the purchase date. Available-for-sale securities are recorded at fair value. Unrealized gains and losses net of the related tax effect, if any, on available-for-sale securities is reported in accumulated other comprehensive income (loss), a component of shareholders' equity, until realized. The fair value of available-for-sale investments are measured based on quoted market prices as of the end of the reporting period (ie., Level 1 inputs.)

Interest income is accrued as earned. Dividend income is recognized as income on the date the stock trades "ex-dividend." The cost of marketable securities sold is determined by the specific identification method and realized gains or losses are reflected in income.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets (other than goodwill) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management assesses the recoverability of the long-lived assets (other than goodwill) by comparing the estimated undiscounted cash flows associated with the related asset or group of assets against their respective carrying amounts. The amount of impairment, if any, is calculated based on the excess of the carrying amount over the fair value of those assets.

Goodwill and Intangible Assets

We test goodwill annually for impairment and more frequently if events and circumstances indicate that the asset might be impaired. We recognize impairment losses to the extent that the carrying amount of goodwill exceeds its fair value. The impairment determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of the reporting unit and compares it to its carrying amount. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The Company's policy is to perform its annual impairment testing for all reporting units as of the end of each fiscal year. For the year ended September 30, 2009, we recorded a goodwill impairment charge for approximately $3.9 million. There was no impairment of goodwill for the year ended September 30, 2010. All goodwill was written off in the prior year.

Intangible assets other than goodwill that are not subject to amortization are also required to be tested annually, or more frequently if events or circumstances indicate that the asset may be impaired. We did not have intangible assets with indefinite lives other than goodwill at any time during the two years ended September 30, 2010. Intangible assets subject to amortization are amortized over their estimated useful lives, generally three to ten years, and are carried at cost, less accumulated amortization. The remaining useful lives of intangible assets are evaluated on an annual basis. Intangible assets subject to amortization are also tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the fair value of an intangible asset subject to amortization is determined to be less than its carrying value, then an impairment charge is recorded to write down that asset to its fair value.

Inventories

Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out method. The recoverability of inventories is based upon the types and levels of inventories held, forecasted demand, pricing, competition and changes in technology. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Property, Equipment and Improvements

The components of property, equipment and improvements are stated at cost. The Company provides for depreciation by use of the straight-line method over the estimated useful lives of the related assets (three to seven years). Leasehold improvements are amortized by use of the straight-line method over the lesser of the estimated useful life of the asset or the lease term. Repairs and maintenance costs are expensed as incurred. Property, equipment and improvements are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. If the fair value of property, equipment and improvements is determined to be less than their carrying value, then an impairment charge is recorded to write down that asset to its fair value.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at amounts that have been billed to customers less an allowance for doubtful accounts. Allowances for doubtful accounts are recorded for the estimated losses resulting from the inability of our customers to make required payments. The estimates for allowance for doubtful accounts are based on the length of time the receivables are past due, current business environment and our historical experience. If the financial condition of our customers were to deteriorate, resulting in impairment of their ability to make payments, additional allowances may be required.

Pension and Retirement Plans

The funded status of pension and other postretirement benefit plans is recognized prospectively on the balance sheet. Gains and losses, prior service costs and credits and any remaining transition amounts that have not yet been recognized through pension expense will be recognized in accumulated other comprehensive income, net of tax, until they are amortized as a component of net periodic pension/postretirement benefits expense. Additionally, plan assets and obligations are measured as of our fiscal year-end balance sheet date (September 30).

We have defined benefit and defined contribution plans in the United Kingdom (the “U.K.”), Germany and in the U.S. In the U.K. and Germany, the Company provides defined benefit pension plans for certain employees and former employees and defined contribution plans for the majority of the employees. The defined benefit plans in both the U.K. and Germany are closed to newly hired employees and have been for the two years ended September 30, 2010. In the U.S., the Company also provides defined contribution plans that cover most employees and supplementary retirement plans to certain employees and former employees who are now retired. These supplementary retirement plans are also closed to newly hired employees and have been for the two years ended September 30, 2010. These supplemental plans are funded through whole life insurance policies. The Company expects to recover all insurance premiums paid under these policies in the future, through the cash surrender value of the policies and any death benefits or portions thereof to be paid upon the death of the participant. These whole life insurance policies are carried on the balance sheet at their cash surrender values as they are owned by the Company and not assets of the defined benefit plans. In the U.S., the Company also provides for officer death benefits and post-retirement health insurance benefits through supplemental post-retirement plans to certain officers. The Company also funds these supplemental plans’ obligations through whole life insurance polices on the officers.

Pension expense is based on an actuarial computation of current future benefits using estimates for expected return on assets, expected compensation increases and applicable discount rates. Management has reviewed the discount rates with our consulting actuaries and investment advisor and concluded they were reasonable. A decrease in the expected return on pension assets would increase pension expense. Expected compensation increases are estimated based on historical and expected increases in the future. Increases in estimated compensation increases would result in higher pension expense while decreases would lower pension expense. Discount rates are selected based upon rates of return on high quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefit. A decrease in the discount rate would result in greater pension expense while an increase in the discount rate would decrease pension expense.

The Company funds its pension plans in amounts sufficient to meet the requirements set forth in applicable employee benefits laws and local tax laws. Liabilities for amounts in excess of these funding levels are accrued and reported in the consolidated balance sheet.

In December 2008, the FASB issued new accounting guidance entitled, “Employers’ Disclosures about Postretirement Benefit Plan Assets”. The new guidance requires additional disclosures about plan assets for sponsors of defined benefit pension and postretirement plans including expanded information regarding investment strategies, major categories of plan assets, and concentrations of risk within plan assets. Additionally, this guidance requires disclosures similar to those required under the fair value accounting principles with respect to the fair value of plan assets such as the inputs and valuation techniques used to measure fair value and information with respect to classification of plan assets in terms of the hierarchy of the source of information used to determine their value. These disclosures are required for the period covered by this report and are included in Note 10.

Revenue Recognition

The Company recognizes product revenue from customers at the time of transfer of title and risk of loss which is generally at the time of shipment, provided that persuasive evidence of an arrangement exists, the price is fixed or determinable and collectability of sales proceeds is reasonably assured. We include freight billed to our customers as sales and the related freight costs as cost of sales. The Company reduces revenue for estimated customer returns.

The Company recognizes revenue from software licenses when persuasive evidence of an arrangement exists, delivery of the product has occurred and the fee is fixed or determinable and collectability is probable. When delivery of services accompany software sales, and vendor specific objective evidence does not exist, and the only undelivered element is services that do not involve significant modification, or customization, of software, then the entire fee is recognized as the services are performed. If no pattern of performance is discernable, the fee is recognized straight line over the service period.

The Company also offers training, maintenance agreements and support services. The Company has established fair value on its training, maintenance and support services based on prices charged in separate sales to customers at prices established and published in its standard price lists. These prices are not discounted. Revenue from these service obligations under maintenance contracts is deferred and recognized on a straight-line basis over the contractual period, which is typically three to twelve months, if all other revenue recognition criteria have been met. Support services provided on a time and material basis are recognized as provided if all of the revenue recognition criteria have been met for that element and the support services have been provided. Training revenue is recognized when performed.

In certain multiple-element revenue arrangements, the Company is obligated to deliver to its customers multiple products and/or services ("multiple elements"). In these transactions, the Company allocates the total revenue to be earned under the arrangement among the various elements based on the Company's best estimate of the standalone selling price. The allocation is based on vendor specific objective evidence, third party evidence or estimated selling price when that element is sold separately. The Company recognizes revenue related to the delivered products or services only if the above revenue recognition criteria are met and the delivered element has standalone value.

In October 2009, the FASB issued Accounting Standards Update ("ASU") 2009-13 - "Multiple-Deliverable Revenue Arrangements—a Consensus of the FASB Emerging Issues Task Force" ("ASU 2009-13") and ASU 2009-14 – "Certain Revenue Arrangements that Contain Software Elements." ("ASU 2009-14"). ASU 2009-13 amends existing revenue recognition accounting principles regarding multiple-deliverable revenue arrangements. The consensus provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and how the consideration should be allocated. This guidance eliminates the requirement to establish verifiable, objective evidence of the fair value of undelivered products and services and also eliminates the residual method of allocating arrangement consideration. The new guidance provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Under the previous guidance, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This pronouncement is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted.

ASU 2009-14 removes the sale of tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality from the scope of software revenue recognition guidance.

Adoption of the new revenue recognition guidance has had an impact on the pattern and timing of revenue recognition. In some cases, revenue that would have been deferred pursuant to the previously existing multiple-element revenue recognition guidance, has been recognized pursuant to the newly issued guidance. This is because in some cases we are not able to determine VSOE or third-party evidence of the service element in our arrangements. Under the new guidance, because the requirement to determine fair value of undelivered elements has been eliminated, and we may use estimated selling price to allocate revenue to elements in an arrangement, we are now more likely to be able to separate arrangements into separate units of accounting, and thereby recognize the delivered elements (typically product revenue) without having delivered the other elements in the arrangements (typically services). The impact of adopting this new accounting guidance on revenue for year ended September 30, 2010 was that $3.5 million in additional revenue was recognized under the newly adopted guidance that wouldn't have been recognized had we not adopted the new standards. The impact of adopting this new accounting guidance on net income and EPS was an increase to net income of $284 thousand for the year ended September 30, 2010, and an increase of $0.08, to both basic and fully diluted earnings per share for the year ended September 30, 2010.

The Company has adopted these standards as of October 1, 2009.

Description of multiple-deliverable arrangements and Software Elements

In many cases, our multiple-deliverable arrangements involve initial shipment of hardware (including tangible products that include software and non-software elements), software products and subsequent delivery of services which add value to the products that have been shipped. In some instances, services are performed prior to product shipment, but more typically services are performed subsequent to shipment of the hardware products. The timing of the delivery and performance of deliverables may vary case-by-case. We evaluate whether we can determine vendor-specific objective evidence ("VSOE") or third-party evidence to allocate revenue among the various elements in an arrangement. When VSOE or third-party evidence cannot be determined, we use estimated selling prices to allocate revenue to the various elements. Estimated selling prices are determined using the targeted gross margin for each element and calculating the gross revenue for each element that would have been required to achieve the targeted gross margin, and allocating revenue to each element based on those relative values.

Typically, product revenue which may consist of hardware (including tangible products that include software and non-software elements) and/or software elements are recognized upon shipment, or when risk of loss passes to the customer. Services elements are typically recognized upon completion for fixed-price service arrangements, and as services are performed for time and materials service arrangements. For software elements that include services that do not involve significant production, modification or customization, and VSOE does not exist, the entire fee allocable to that element is recognized as the services are performed. If no pattern of performance is discernable, the fee is recognized straight line over the service period. The period over which services are delivered typically ranges from approximately sixty to ninety days, or longer in some cases.

For tangible products containing software components and non-software components, we determine whether these elements function together to deliver the tangible product essential functionality. If the software and non-software components of the tangible product function together to deliver the tangible product's essential functionality, software revenue recognition guidance is not applied, but rather other appropriate revenue recognition guidance as described above.

The following policies are applicable to the Company's major categories of segment revenue transactions:

Systems Segment Revenue

Revenue in the Systems Segment consists of product and service revenue. Generally, product revenue is recognized when product is shipped, provided that all revenue recognition criteria are met. Service revenue consists principally of royalty revenue related to the licensing of certain of the Company's proprietary system technology and repair services. The Company recognizes royalty revenues upon notification by the customer of shipment of the systems produced pursuant to the royalty agreement. Repair service revenue is generally based upon a fixed price and is recognized upon completion of the repair.

From time to time we enter into multiple element arrangements in the Systems Segment. We follow the accounting policies described above for such arrangements.

The Company's standard sales agreements generally do not include customer acceptance provisions. However, in certain instances when arrangements include a customer acceptance provision or there is uncertainty about customer acceptance, revenue is deferred until the Company has evidence of customer acceptance. Customers generally do not have the right of return, once customer acceptance has occurred.

Service and System Integration Segment Revenue

Revenue in the Service and System Integration Segment consists of product and service revenue.

Revenue from the sale of third-party hardware and third-party software is recognized when the revenue recognition criteria are met. The Company's standard sales agreements generally do not include customer acceptance provisions. However, in certain instances when arrangements include a customer acceptance provision or there is uncertainty about customer acceptance, revenue is deferred until the Company has evidence of customer acceptance. Customers do not have the right of return.

Service revenue is comprised of information technology consulting development, installation, implementation and maintenance services. We follow the accounting policies described above for service transactions. For arrangements that include a customer acceptance provision, or if there is uncertainty about customer acceptance of services rendered, revenue is deferred until the Company has evidence of customer acceptance.

For sales that are financed by customers through leases with a third party when risk of loss does not pass to the customer until the lease is executed, revenue is recognized upon cash receipt and execution of the lease.

We sell certain third party service contracts, which are evaluated to determine whether the sale of such service revenue should be recorded as gross sales or net sales in accordance with the sales recognition criteria as required by U.S. Generally Accepted Accounting Principles ("GAAP"). We must determine whether we act as a principal in the transaction and assume the risks and reward of ownership or if we are simply acting as an agent or broker. Under gross sales recognition, the entire selling price is recorded in sales and our cost to the third-party service provider or vendor is recorded in cost of goods sold. Under net sales recognition, the cost to the third-party service provider or vendor is recorded as a reduction to sales resulting in net sales equal to the gross profit on the transaction and there are no costs of goods sold. We use the gross sales recognition method for the third party service contracts that we sell, as we have determined that we act as a principal in these sales transactions.

Product Warranty Accrual

Our product sales generally include a 90-day to one-year hardware warranty. At time of product shipment, we accrue for the estimated cost to repair or replace potentially defective products. Estimated warranty costs are based upon prior actual warranty costs for substantially similar products.

Engineering and Development Expenses

Engineering and development expenses include payroll, employee benefits, stock-based compensation and other headcount-related expenses associated with product development. Engineering and development expenses also include third-party development and programming costs. We consider technological feasibility for our software products to be reached upon the release of the software, accordingly, no internal software development costs have been capitalized.

Income Taxes

We use the asset and liability method of accounting for income taxes whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We also reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This methodology requires estimates and judgments in the determination of the recoverability of deferred tax assets and in the calculation of certain tax liabilities. Valuation allowances are recorded against the gross deferred tax assets that management believes, after considering all available positive and negative objective evidence, historical and prospective, with greater weight given to historical evidence, that it is more likely than not that these assets will not be realized.

In addition, we are required to recognize in the consolidated financial statements, those tax positions determined to be more-likely-than-not of being sustained upon examination, based on the technical merits of the positions as of the reporting date. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are recognized.

In addition, the calculation of the Company’s tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions. The Company records liabilities for estimated tax obligations in the U.S. and other tax jurisdictions. These estimated tax liabilities include the provision for taxes that may become payable in the future.

Earnings per Share of Common Stock

In June 2008, the FASB issued new accounting guidance entitled, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities.” Under the new guidance, non-vested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share (“EPS”) pursuant to the two-class method. The two-class method determines EPS for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. The new guidance is effective for fiscal years beginning after December 15, 2008 (fiscal year ending September 30, 2010 for the Company). The new disclosures required pursuant to this new guidance are included below.

Basic net income per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects the maximum dilution that would have resulted from the assumed exercise and share repurchase related to dilutive stock options and is computed by dividing net income by the assumed weighted average number of common shares outstanding.

In accordance with new accounting guidance as described above, we are required to present EPS utilizing the two class method because we had outstanding, non-vested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, which are considered participating securities.

Basic and diluted earnings (loss) per share computations for the Company’s reported net income attributable to common stock holders are as follows:

	For the year ended	
	September 30, 2010	**September 30, 2009**
	(Amounts in thousands except per share data)	
Net income (loss)	$ 914	$ (3,783)
Less: Net income attributable to nonvested common stock	9	(18)
Net income (loss) attributable to common stockholders	$ 905	$ (3,765)
Weighted average shares outstanding – basic	3,574	3,594
Less: weighted average non-vested shares outstanding	36	17
Weighted average number of common shares outstanding – basic	3,538	3,577
Potential common shares from non-vested stock awards and the assumed exercise of stock options	29	-

Weighted average common shares outstanding – diluted	3,567	3,577
Net income (loss) per share – basic	$ 0.26	$ (1.05)
Net income (loss) per share – diluted	$ 0.25	$ (1.05)

For the year ended September 30, 2010, basic and diluted earnings per share attributable to unvested shares were $0.26 and $0.25 per share, respectively. For the year ended September 30, 2009, the loss per share attributable to unvested shares was $1.05 per share.

All anti-dilutive securities, including stock options, are excluded from the diluted income per share computation. For the year ended September 30, 2010, 240 thousand options were excluded from the diluted income per share calculation because their inclusion would have been anti-dilutive. For the year ended September 30, 2009, approximately 348 thousand options were excluded from the diluted income per share calculation because their inclusion would have been anti-dilutive.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates under different assumptions or conditions.

Stock-Based Compensation

We measure and recognize compensation expense for all stock-based payment awards made to employees and directors including stock options and nonvested shares of common stock based on estimated fair values of stock-based payment awards on the date of grant. The Company uses the Black-Scholes option-pricing model to calculate the fair value of stock option grants. The fair value of nonvested share awards is equal to the quoted market price of our common stock as quoted on the Nasdaq Global Market on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Operations.

Because stock-based compensation expense recognized in the Consolidated Statements of Operations for the fiscal years ended September 30, 2010 and 2009 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures and will be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Stock-based compensation expense recognized for the fiscal years ended September 30, 2010 and 2009 consisted of stock-based compensation expense related to options and nonvested stock granted pursuant to the Company's stock incentive and employee stock purchase plans of approximately $223 thousand and $265 thousand, respectively.

Concentrations of Credit Risk

Cash and cash equivalents are maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance on such deposits. Generally, these deposits may be redeemed upon demand. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Subsequent Events

The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements.

New Accounting Pronouncements

In April 2010, the FASB codified the consensus reached in Emerging Issues Task Force Issue No. 08-09, " Milestone Method of Revenue Recognition." FASB ASU No. 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. FASB ASU No. 2010-17 is effective for fiscal years beginning on or after June 15, 2010 (Fiscal year ending September 30, 2011 for the Company), and is effective on a prospective basis for milestones achieved after the adoption date. The Company does not expect this ASU will have a material impact on its financial position or results of operations when it adopts this update on October 1, 2010.

Management does not anticipate other recently issued accounting pronouncements will have any impact on the Company's financial statements.

2. Inventories

Inventories consist of the following:

	September 30, 2010	September 30, 2009
	(Amounts in thousands)	
Raw materials	$ 1,029	$ 1,285
Work-in-process	439	871
Finished goods	4,394	3,779
Total	$ 5,862	$ 5,935

Finished goods includes inventory that has been shipped, but for which all revenue recognition criteria has not been met of approximately $2.4 million and $1.4 as of September 30, 2010 and 2009, respectively.

Total inventory balances in the table above are shown net of reserves for obsolescence of approximately $4.1 million and $4.6 million as of September 30, 2010 and 2009, respectively.

3. Accumulated Other Comprehensive Loss

The components of Accumulated Other Comprehensive Loss are as follows:

	Effect of Foreign Currency Translation	Minimum Pension Liability	Accumulated Other Comprehensive Loss
	(Amounts in thousands)		
Balance September 30, 2008	$ (1,549)	$ (1,738)	$ (3,287)
Change in period	(302)	(711)	(1,013)
Tax effect of change in period	—	32	32
Balance September 30, 2009	$ (1,851)	$ (2,417)	$ (4,268)
Change in period	(282)	(995)	(1,277)
Tax effect of change in period	—	193	193
Balance September 30, 2010	$ (2,133)	$ (3,219)	$ (5,352)

The changes in the minimum pension liability are net of amortization of net (gain) loss of $137 thousand in 2010 and $(39) thousand in 2009 included in net periodic pension cost.

4. Income Taxes:

The components of income (loss) before income tax and income tax expense (benefit) are comprised of the following:

	Years Ended September 30,	
	2010	2009
	(Amounts in thousands)	
Income (loss) before income tax:		
U.S.	$ 1,448	$ (4,197)
Foreign	(299)	(759)
	$ 1,149	$ (4,956)
Income tax expense (benefit):		
Current:		
Federal	$ 410	$ 28
State	51	31
Foreign	(158)	(519)
	303	(460)
Deferred:		
Federal	(59)	(625)
State	(9)	(91)
Foreign	--	3
	(68)	(713)
	$ 235	$ (1,173)

Reconciliation of “expected” income tax expense (benefit) to “actual” income tax expense (benefit) is as follows:

	Years Ended September 30,			
	2010		2009	
	(Dollar amounts in thousands)			
Computed “expected” tax expense (benefit)	$ 391	34.0%	$ (1,685)	(34.0)%
Increases (reductions) in taxes resulting from:				
State income taxes, net of federal tax benefit	28	2.4%	(40)	(0.8)%
Foreign operations	(57)	(5.0)%	(258)	(5.2)%
Change in valuation allowance	70	6.1%	900	18.2%
Permanent differences	4	0.4%	19	0.4%
Inventory	--	--	(76)	(1.5)%
Stock-based compensation	34	3.0%	49	1.0%
Federal net operating loss	--	--	(106)	(2.1)%
Uncertain tax liability adjustment	(320)	(27.8)%	28	0.5%
Tax refund adjustment	79	6.9%	--	--
Other items	6	0.5%	(4)	(0.2)%
Income tax expense (benefit)	$ 235	20.5%	$ (1,173)	(23.7)%

The Company recorded a consolidated income tax expense of $235 thousand in fiscal year 2010 reflecting an effective tax rate of 20.5% compared to a tax benefit of $1.2 million in fiscal year 2009 with an effective tax rate of (23.7)%. We utilized approximately $359 thousand of our net operating loss carryovers which were applied against our 2009 U.S. taxable income.

For the years ended September 30, 2010 and 2009, temporary differences, which give rise to deferred tax assets (liabilities), are as follows:

	September 30, 2010	September 30, 2009
	(Amounts in thousands)	
Deferred tax assets:		
Pension	$ 2,502	$ 2,199
Goodwill	954	1,052
Other reserves and accruals	409	273
Inventory reserves and other	618	519
State credits, net of federal benefit	485	219
Federal and state net operating loss carryforwards	132	297
Foreign net operating loss carryforwards	2,874	2,847
Foreign tax credits	7	44
Depreciation and amortization	228	203
Gross deferred tax assets	8,209	7,653
Less: valuation allowance	(7,205)	(6,745)
Realizable deferred tax asset	1,004	908
Deferred tax liabilities:		
Pension	—	(146)
Reserves	—	(96)
Gross deferred tax liabilities	—	(242)
Net deferred tax assets	$ 1,004	$ 666

The deferred tax valuation allowance increased by $460 thousand, from $6.7 million at September 30, 2009, to $7.2 million at September 30, 2010. In assessing the realizability of deferred tax assets, the Company considers its taxable future earnings and the expected timing of the reversal of temporary differences. Accordingly, the Company has recorded a valuation allowance which reduces the gross deferred tax asset to an amount which management believes will more likely than not be realized. The valuation allowance was determined, by assessing both positive and negative evidence, whether it is more likely than not that deferred tax assets are realizable. Such assessment is done on a jurisdiction-by-jurisdiction basis. The Company's inability to project future profitability beyond fiscal year 2012 in the U.S. and the cumulative losses incurred in recent years in the U.K. represent sufficient negative evidence to record a valuation allowance against certain deferred tax assets.

As of September 30, 2010 and 2009, the Company had U.S. net operating loss carryforwards for state tax purposes of approximately $1.9 million and $4.2 million, respectively which are available to offset future taxable income through 2028.

As of September 30, 2010, the Company had U.K. net operating loss carryforwards of approximately $8.6 million that have an indefinite life with no expiration.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $3.7 million and $3.1 million at September 30, 2010 and 2009, respectively. The Company's policy is that its undistributed foreign earnings are indefinitely reinvested and, accordingly, no U.S. federal and state deferred tax liabilities have been recorded.

In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions. The Company records liabilities for estimated tax obligations in the U.S. and other tax jurisdictions. These estimated tax liabilities include the provision for taxes that may become payable in the future.

As of October 1, 2007, the total amount of uncertain tax liabilities was $260 thousand, all of which would affect our effective tax rate if recognized. We recognize interest and potential penalties accrued related to unrecognized tax benefits in our provision for income taxes.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

	Year Ended September 30, 2010	Year Ended September 30, 2009
	(Amounts in thousands)	
Balance, beginning of year	$ 320	$ 291
Increases in tax positions in the current year	—	—
Settlements	—	—
Accrued penalties and interest	14	29
Decrease in current and prior year tax positions	(334)	—
Balance, end of year	$ —	$ 320

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. During 2010, the Company closed its most recent IRS audit. The Company has reviewed the tax positions taken on returns filed domestically and in its foreign jurisdictions for all open years, generally 2007 through 2010, and believes that tax adjustments in any audited year will not be material.

5. Property, Equipment and Improvements, Net

Property, equipment and improvements, net consist of the following:

	September 30, 2010	September 30, 2009
	(Amounts in thousands)	
Leasehold improvements	$ 305	$ 300
Equipment	6,993	7,960
Automobiles	118	84
	7,416	8,344
Less accumulated depreciation and amortization	(6,543)	(7,512)
Property, equipment and improvements, net	$ 873	$ 832

The Company uses the straight-line method over the estimated useful lives of the assets to record depreciation expense. Depreciation expense was $399 thousand and $466 thousand for the years ended September 30, 2010 and 2009, respectively.

6. Goodwill and Other Intangible Assets

Goodwill

The following table summarizes our goodwill as of September 30, 2010 and 2009 and the changes thereto for the years ended September 30, 2010 and 2009:

	September 30, 2010	September 30, 2009
	(Amounts in thousands)	
Goodwill balance beginning of year	$ —	$ 3,941
Impairment charge	—	(3,941)
Goodwill balance end of year	$ —	$ —

The goodwill balance as of October 1, 2008 consisted of $2.8 million recognized in connection with the purchase of certain assets of Technisource Hardware, Inc. ("Technisource") on May 30, 2003 and approximately $1.1 million recognized in connection with the purchase of substantially all the assets of R2 Technology Services, Inc. on September 25, 2008. The goodwill balance was within the Service and System Integration segment. The reporting unit for purposes of evaluating goodwill impairment was the Modcomp U.S. Systems and Solutions division.

As required by GAAP, we test goodwill for impairment annually and/or more frequently if events occur that indicate the impairment conditions may be present, to determine whether there has been an impairment to the fair value of our reporting unit that includes goodwill. The estimated fair value of the reporting unit with goodwill is based on a combination of discounted projected cash flows and observable market price-to-earnings multiples of relevant, comparable peer companies. Based upon the results of our appraisal and valuation activities in connection with our annual goodwill impairment test, we determined that the reporting unit's estimated fair value was below its carrying value. We then calculated the implied fair value of goodwill by determining the fair value of all the assets and liabilities of the reporting unit. As a result of this process, we determined that the fair value of goodwill was $0 as of September 30, 2009. The carrying value of goodwill prior to any impairment charges was approximately $3.9 million. Accordingly, we recorded an impairment charge of approximately $3.9 million as shown in the table above, for the year ended September 30, 2009.

The global economic downturn led to significant market volatility and a reduction in the Company's profitability in the second half of fiscal 2009. These changes to market and business conditions caused lower multiples and resulted in our lowering our projected forecast for 2010. The fair value of our Systems and Solutions reporting unit declined due to these deteriorating market and business conditions, which ultimately resulted in a $3.9 million non-cash impairment charge to our goodwill for the year ended September 30, 2009.

Intangible Assets

The Company acquired intangible assets in connection with the acquisition of R2 on September 25, 2008 (see Note 2). As of September 30, 2010 and 2009 intangible assets is as follows:

	September 30, 2010				September 30, 2009			
	Weighted Average Remaining Amortization Period	Gross	Accum-ulated Amor-tization	Net	Weighted Average Remaining Amortization Period	Gross	Accum-ulated Amor-tization	Net
	(Amounts in thousands)							
Customer list	8 years	$ 820	$ 164	$ 656	9 years	$ 820	$ 82	$ 738
Non-Compete agreements	1 year	93	62	31	2 years	93	31	62
Total	7.7 years	$ 913	$ 226	$ 687	8.5 years	$ 913	$ 113	$ 800

Amortization expense on these intangible assets was $113 thousand and $113 thousand for fiscal 2010 and 2009, respectively.

Annual amortization expense related to intangible assets for each of the following successive fiscal years is as follows:

Fiscal year ending September 30:	(Amounts in thousands)
2011	$ 113
2012	82
2013	82
2014	82
2015	82
Thereafter	246
Total	$ 687

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	September 30,	
	2010	2009
	(Amounts in thousands)	
Accounts payable	$ 6,349	$ 6,901
Commissions	186	128
Compensation and fringe benefits	1,827	1,428
Professional fees and shareholders' reporting costs	513	645
Taxes, other than income	633	368
Warranty	143	157
Current portion of capital lease	55	16
Other	343	887
	$ 10,049	$ 10,530

8. Stock Options and Awards

In 1991, the Company adopted the 1991 Stock Option Plan (the "1991 Plan"), and authorized 332,750 shares of common stock to be reserved for issuance pursuant to the 1991 Plan. The 1991 Plan expired on October 23, 2001. In 1997, the Company adopted the 1997 Stock Option Plan (the "1997 Plan"), and authorized 199,650 shares of common stock to be reserved for issuance pursuant to the 1997 Plan. The 1997 plan expired in 2007. Because the 1991Plan and the 1997 Plan have expired, no further awards will be issued under these plans. In 2003, the Company adopted the 2003 Stock Incentive Plan (the "2003 Plan") and authorized 200,000 shares of common stock to be reserved for issuance pursuant to the 2003 Plan. As of September 30, 2010, there were 20,000 shares available to be granted under the 2003 Plan. In 2007, the Company adopted the 2007 Stock Incentive Plan (the "2007 Plan") and authorized 250,000 shares of common stock to be reserved for issuance pursuant to the 2007 Plan. As of September 30, 2010, there were 147,950 shares available to be granted under the 2007 Plan. In 2003, the Company issued non-qualified stock options to non-officer employees hired as part of the Technisource acquisition. These options were granted at their fair value on the date of grant. These options vested over a period of four years and expire ten years from the date of grant. Under all of the stock incentive plans, both incentive stock options and non-qualified stock options may be granted to officers, key employees and other persons providing services to the Company. The 2003 Plan and 2007 Plan also provide for awards of nonvested shares of common stock. All of the Company's stock incentive plans have a ten year life. The total number of available shares under all plans for future awards was 167,950 as of September 30, 2010.

Options issued under any of the stock option plans are not affected by termination of the plan. The Company issues stock options at their fair market value on the date of grant. Vesting of stock options granted pursuant to the Company's stock incentive plans is determined by the Company's compensation committee. Generally, options granted to employees vest over four years and expire ten years from the date of grant. Options granted to non-employee directors, have historically been cliff vesting after six months from the date of grant and expire three years from the date of grant. In fiscal 2009 and 2010, the Company granted certain officers including its Chief Executive Officer and non-employee directors shares of nonvested common stock instead of stock options. The vesting periods for the officers', the Chief Executive Officer's and the directors' nonvested stock awards are four years, three years and one year, respectively.

We measure and recognize compensation expense for all stock-based payment awards made to employees and directors including employee stock options and awards of nonvested stock based on estimated fair values, as described in note 1. Stock-based compensation expense incurred and recognized for the years ended September 30, 2010 and 2009 related to stock options and nonvested stock granted to employees and non-employee directors under the Company's stock incentive and employee stock purchase plans totaled approximately $223 thousand and $265 thousand, respectively. The classification of the cost of share-based compensation, in the statements of operations, is consistent with the nature of the services being rendered in exchange for the share based payment. The following table summarizes stock-based compensation expense in the Company's consolidated statements of operations:

	Years ended	
	September 30, 2010	September 30, 2009
	(Amounts in thousands)	
Cost of sales	$ 1	$ 9
Engineering and development	28	35
Selling, general and administrative	194	221
Total	$ 223	$ 265

For the year ended September 30, 2010, the Company granted 2,250 share options to certain key employees, 21,000 nonvested shares to certain officers including the Chief Executive Officer and 10,000 nonvested shares to its non-employee directors. For the year ended September 30, 2009, the Company granted 12,250 share options to certain key employees, 13,300 nonvested shares to its Chief Executive Officer and 10,000 nonvested shares to its non-employee directors.

The Company measures the fair value of nonvested stock awards based upon the market price of its common stock as of the date of grant. The Company uses the Black-Scholes option-pricing model to value stock options. The Black-Scholes model requires the use of a number of assumptions including volatility of the Company's stock price, the weighted average risk-free interest rate and the weighted average expected life of the options, at the time of grant. Because the Company does not pay dividends, the dividend rate variable in the Black-Scholes model is zero. The table below summarizes the assumptions used to value these options:

	Years ended	
	September 30, 2010	September 30, 2009
Expected volatility	59%	57%
Expected dividend yield	—	—
Risk-free interest rate	2.72%-3.08%	1.55%-1.73%
Expected term (in years)	6.1-7.6	6.1-7.6

The volatility assumption is based on the historical weekly price data of the Company's stock over a period equivalent to the weighted average expected life of the Company's options. Management evaluated whether there were factors during those periods which would distort the volatility figures if used to estimate future volatility and concluded that there were no such factors.

The risk-free interest rate assumptions are based on U.S. Treasury rates determined at the date of option grant.

The expected terms of employee stock options represent weighted-average periods that the stock options are expected to remain outstanding. They are based upon the historical average of the actual terms that stock options were outstanding, or are expected to be outstanding. Management believes this historical data is representative of the expected term of options granted for the years ended September 30, 2010 and 2009.

As stock-based compensation expense recognized in the consolidated statements of operations is based on awards ultimately expected to vest, expense for grants beginning upon adoption on October 1, 2005 has been reduced for estimated forfeitures. Forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The forfeiture rates for the years ended September 30, 2010 and 2009 were based on actual forfeitures.

No cash was used to settle equity instruments granted under share-base payment arrangements in any of the years in the two-year period ended September 30, 2010.

The following tables provide summary data of stock option award activity:

	Number of Shares	Weighted average exercise price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at September 30, 2008	437,682	$ 6.69	—	—
Granted	12,250	$ 2.99	—	—
Expired	(78,970)	$ 6.50	—	—
Forfeited	—	—	—	—
Exercised	—	—	—	—
Outstanding at September 30, 2009	370,962	$ 6.61	—	—
Granted	2,250	$ 3.85	—	—
Expired	(98,437)	$ 5.61	—	—
Forfeited	—	—	—	—
Exercised	—	—	—	—
Outstanding at September 30, 2010	274,775	$ 6.95	4.92 Years	$ 82
Exercisable at September 30, 2010	235,398	$ 7.14	4.47 Years	$ 69
Vested and expected to vest at September 30, 2010	274,775	$ 6.95	4.92 Years	$ 82

The weighted average grant date fair value of share options granted during the years ended September 30, 2010 and 2009 was $2.32 and $1.71, respectively. The aggregate intrinsic value of stock options exercised during the years ended September 30, 2010 and 2009 was zero (there were no stock options exercised in fiscal 2010 and 2009).

The following table provides summary data of nonvested stock award activity:

	Number of nonvested shares	Weighted Average grant date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Nonvested shares outstanding at September 30, 2009	23,300	$ 3.17	—	—
Activity in 2010				
Granted	31,000	$ 3.79	—	—
Vested	(14,434)	$ 3.28	—	—
Forfeited	—	—	—	—
Nonvested shares outstanding at September 30, 2010	39,866	$ 3.61	1.65 Years	$ 171
Vested at September 30, 2010	14,434	$ 3.28	0.37 Years	62
Vested and expected to vest at September 30, 2010	54,300	$ 3.52	1.31 Years	$ 233

As of September 30, 2010 there was $192 thousand of total unrecognized compensation cost related to nonvested share-based compensation arrangements (including share option and nonvested share awards) granted under the company's stock incentive plans. This cost is expected to be expensed over a weighted average period of approximately 1.66 years. The total fair value of shares vested during the years ended September 30, 2010 and 2009 was $169 thousand and $194 thousand, respectively.

9. Stock Purchase Plan

In October 1997, the Board of Directors of the Company adopted an Employee Stock Purchase Plan (the "1997 Purchase Plan"), which was ratified by the shareholders. There are 332,750 shares of common stock reserved for issuance under the 1997 Purchase Plan. Under the 1997 Purchase Plan, the Company's employees may purchase shares of common stock at a price per share that is 85% of the lesser of the fair market value as of the beginning or end of semi-annual option periods. Compensation expense recorded for shares issued pursuant to the 1997 Purchase Plan for the years ended September 30, 2010 and 2009 was approximately $46 thousand and $75 thousand, respectively. For the years ended September 30, 2010 and 2009, 42,121 and 64,888 shares were issued pursuant to the 1997 Purchase Plan, respectively. Since inception of the plan, 308,746 shares have been issued and there are 24,004 shares available for future issuance under the 1997 Purchase Plan as of September 30, 2010.

10. Pension and Retirement Plans

We have defined benefit and defined contribution plans in the U.K., Germany and in the U.S. In the U.K. and Germany, the Company provides defined benefit pension plans for certain employees and former employees and defined contribution plans for the majority of the employees. The defined benefit plans in both the U.K. and Germany are closed to newly hired employees and have been for the two years ended September 30, 2010. In the U.S., the Company also provides defined contribution plans that cover most employees and supplementary retirement plans to certain employees and former employees who are now retired. These supplementary retirement plans are also closed to newly hired employees and have been for the two years ended September 30, 2010. These supplemental plans are funded through whole life insurance policies. The Company expects to recover all insurance premiums paid under these policies in the future, through the cash surrender value of the policies and any death benefits or portions thereof to be paid upon the death of the participant. These whole life insurance policies are carried on the balance sheet at their cash surrender values as they are owned by the Company and not assets of the defined benefit plans. In the U.S., the Company also provides for officer death benefits and post-retirement health insurance benefits through supplemental post-retirement plans to certain officers. The Company also funds these supplemental plans' obligations through whole life insurance polices on the officers.

Defined Benefit Plans

The Company funds its pension plans in amounts sufficient to meet the requirements set forth in applicable employee benefits laws and local tax laws. Liabilities for amounts in excess of these funding levels are accrued and reported in the consolidated balance sheet.

The German Plan does not have any assets and therefore all costs and benefits of the plan are funded annually with cash flow from operations.

The domestic supplemental retirement plans have life insurance policies which are not considered plan assets but were purchased by the Company as a vehicle to fund the costs of the plan. These insurance policies are included in the balance sheet at their cash surrender value, net of policy loans, aggregating $1.8 million and $1.7 million as of September 30, 2010 and 2009, respectively. The loans against the policies have been taken out by the Company to pay the premiums. The costs and benefit payments for these plans are paid through operating cash flows of the Company to the extent that they can not be funded through the use of the cash values in the insurance policies. The Company expects that the recorded value of the insurance policies will be sufficient to fund all of the Company's obligations under these plans.

Assumptions:

The following table provides the weighted average actuarial assumptions used to determine the actuarial present value of projected benefit obligations at:

	Domestic		International	
	September 30,		September 30,	
	2010	2009	2010	2009
Discount rate:	5.25%	5.75%	4.66%	5.63%
Expected return on plan assets:	—%	—%	6.20%	6.20%
Rate of compensation increase:	—%	—%	1.20%	1.17%

The following table provides the weighted average actuarial assumptions used to determine net periodic benefit cost for years ended:

	Domestic		International	
	September 30,		September 30,	
	2010	2009	2010	2009
Discount rate:	5.75%	7.50%	5.63%	6.66%
Expected return on plan assets:	—%	—%	6.20%	7.10%
Rate of compensation increase:	—%	—%	1.17%	1.62%

For domestic plans, the discount rate was determined by comparison against the Citigroup Pension Discount Curve and Liability Index for AA rated corporate instruments with lives approximating the pension benefit. The Company monitors other indices to assure that the pension obligations are fairly reported on a consistent basis. The international discount rates were determined by comparison against country specific AA corporate indices, adjusted for duration of the obligation.

The periodic benefit cost and the actuarial present value of projected benefit obligations are based on actuarial assumptions that are reviewed on an annual basis. The Company revises these assumptions based on an annual evaluation of long-term trends, as well as market conditions that may have an impact on the cost of providing retirement benefits.

The components of net periodic benefit costs related to the U.S. and international plans are as follows:

	Years Ended September 30					
	2010			2009		
	Foreign	U.S.	Total	Foreign	U.S.	Total
	(amounts in thousands)					
Pension:						
Service cost	$ 58	$ 9	$ 67	$ 54	$ 7	$ 61
Interest cost	669	116	785	689	147	836
Expected return on plan assets	(448)	—	(448)	(456)	—	(456)
Amortization of:						
Prior service gains	—	—	—	—	—	—
Amortization of net (gain)/loss	42	30	72	9	(30)	(21)
Net periodic benefit cost	$ 321	$ 155	$ 476	$ 296	$ 124	$ 420
Post Retirement:						
Service cost	$ —	$ 18	$ 18	$ —	$ 13	$ 13
Interest cost	—	69	69	—	66	66
Expected return on plan assets	—	—	—	—	—	—
Amortization of:						
Prior service costs/(gains)	—	—	—	—	—	—
Amortization of net (gain)/loss	—	65	65	—	(18)	(18)
Net periodic benefit cost	$ —	$ 152	$ 152	$ —	$ 61	$ 61
Pension:						
Increase in minimum liability included in other comprehensive income (loss)	$ 1,048	$ 2	$ 1,050	$ 277	$ 182	$ 459
Post Retirement:						
Increase (decrease) in minimum liability included in other comprehensive income (loss)	—	(55)	(55)	—	252	252
Total:						
Increase (decrease) in minimum liability included in other comprehensive income (loss)	$ 1,048	$ (53)	$ 995	$ 277	$ 434	$ 711

The following table presents an analysis of the changes in 2010 and 2009 of the benefit obligation, the plan assets and the funded status of the plans:

	Years Ended September 30					
	2010			2009		
	Foreign	U.S.	Total	Foreign	U.S.	Total
	(Amounts in thousands)					
Pension:						
Change in projected benefit obligation ("PBO")						
Balance beginning of year	$ 12,769	$ 2,011	$ 14,780	$ 12,371	$ 1,966	$ 14,337
Service cost	58	9	67	54	7	61
Interest cost	669	116	785	689	147	836
Changes in actuarial assumptions	1,248	32	1,280	854	151	1,005
Foreign exchange impact	(357)	—	(357)	(808)	—	(808)
Benefits paid	(269)	(273)	(542)	(391)	(260)	(651)
Projected benefit obligation at end of year	$ 14,118	$ 1,895	$ 16,013	$ 12,769	$ 2,011	$ 14,780
Changes in fair value of plan assets:						
Fair value of plan assets at beginning of year	$ 7,410	$ —	$ 7,410	$ 7,444	$ —	$ 7,444
Actual gain on plan assets	606	—	606	796	—	796
Company contributions	306	273	579	289	260	549
Foreign exchange impact	(117)	—	(117)	(729)	—	(729)
Benefits paid	(268)	(273)	(541)	(390)	(260)	(650)
Fair value of plan assets at end of year	$ 7,937	$ —	$ 7,937	$ 7,410	$ —	$ 7,410
Funded status	$ (6,181)	$ (1,895)	$ (8,076)	$ (5,359)	$ (2,011)	$ (7,370)
Unamortized net loss	—	—	—	—	—	—
Net amount recognized	$ (6,181)	$ (1,895)	$ (8,076)	$ (5,359)	$ (2,011)	$ (7,370)
Post Retirement:						
Change in projected benefit obligation ("PBO"):						
Balance beginning of year	$ —	$ 1,197	$ 1,197	$ —	$ 885	$ 885
Service cost	—	18	18	—	13	13
Interest cost	—	68	68	—	66	66
Changes in actuarial assumptions	—	10	10	—	233	233
Foreign exchange impact	—	—	—	—	—	—
Benefits paid	—	—	—	—	—	—
Projected benefit obligation at end of year	$ —	$ 1,293	$ 1,293	$ —	$ 1,197	$ 1,197
Changes in fair value of plan assets:						
Fair value of plan assets at beginning of year	—	—	—	—	—	—
Actual gain/(loss) on plan assets	—	—	—	—	—	—
Company contributions	—	—	—	—	—	—
Foreign exchange impact	—	—	—	—	—	—
Benefits paid from plan assets	—	—	—	—	—	—
Fair value of plan assets at end of year	$ —	$ —	$ —	$ —	$ —	$ —
Funded status	$ —	$ (1,293)	$ (1,293)	$ —	$ (1,197)	$ (1,197)
Unamortized net loss	—	—	—	—	—	—
Net amount recognized	$ —	$ (1,293)	$ (1,293)	$ —	$ (1,197)	$ (1,197)

The amounts recognized in the consolidated balance sheet consist of:

	Years Ended September 30					
	2010			2009		
	Foreign	U.S.	Total	Foreign	U.S.	Total
	(Amounts in thousands)					
Pension:						
Accrued benefit liability	$ (6,181)	$ (1,895)	$ (8,076)	$ (5,359)	$ (2,011)	$ (7,370)
Deferred tax	48	—	48	(145)	—	(145)
Accumulated other comprehensive income	2,985	92	3,077	2,131	90	2,221
Net amount recognized	$ (3,148)	$ (1,803)	$ (4,951)	$ (3,373)	$ (1,921)	$ (5,294)
Post Retirement:						
Accrued benefit liability	$ —	$ (1,293)	$ (1,293)	$ —	$ (1,197)	$ (1,197)
Deferred tax	—	—	—	—	—	—
Accumulated other comprehensive income	—	142	142	—	196	196
Net amount recognized	$ —	$ (1,151)	$ (1,151)	$ —	$ (1,001)	$ (1,001)
Total pension and post retirement:						
Accrued benefit liability	$ (6,181)	$ (3,188)	$ (9,369)	$ (5,359)	$ (3,208)	$ (8,567)
Deferred tax	48	—	48	(145)	—	(145)
Accumulated other comprehensive income	2,985	234	3,219	2,131	286	2,417
Net amount recognized	$ (3,148)	$ (2,954)	$ (6,102)	$ (3,373)	$ (2,922)	$ (6,295)
Accumulated Benefit Obligation:						
Pension	$ (14,006)	$ (1,895)	$ (15,901)	$ (12,677)	$ (2,011)	$ (14,688)
Post Retirement	—	(1,293)	(1,293)	—	(1,197)	(1,197)
Total accumulated benefit obligation	$ (14,006)	$ (3,188)	$ (17,194)	$ (12,677)	$ (3,208)	$ (15,885)

Plans with projected benefit obligations in excess of plan assets are attributable to unfunded domestic supplemental retirement plans, our German plans which are legally not required to be funded and our U.K. retirement plan.

Accrued benefit liability reported as:

	September 30,	
	2010	2009
	(Amounts in thousands)	
Current accrued benefit liability	$ 441	$ 447
Noncurrent accrued benefit liability	8,928	8,120
Total accrued benefit liability	$ 9,369	$ 8,567

As of September 30, 2010 and 2009 the amounts included in accumulated other comprehensive income, consisted of deferred net losses totaling approximately $3.2 million and $2.4 million, respectively.

The amount of net deferred loss expected to be recognized as a component of net periodic benefit cost for the year ending September 30, 2011, is approximately $146 thousand.

Contributions

The Company expects to contribute $441 thousand to its pension plans for fiscal 2011.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (amounts in thousands):

Fiscal year ending September 30:	(Amounts in thousands)
2011	$ 572

2012	643
2013	647
2014	754
2015	797
Thereafter	4,384

Plan Assets

At September 30, 2010, our pension plan in the U.K. was the only plan with assets, holding investments of approximately $7.9 million. Pension plan assets are managed by a fiduciary committee. The Company's investment strategy for pension plan assets is to maximize the long-term rate of return on plan assets within an acceptable level of risk while maintaining adequate funding levels. Local regulations, local funding rules, and local financial and tax considerations are part of the funding and investment process. In deciding on the investments to be held, the trustees take into account the risk of possible fluctuations in income from, and market values of, the assets as well as the risk of departing from an asset profile which broadly matches the liability profile. The committee has invested the plan assets in a single pooled fund with an authorized investment company. The fund selected by the trustees is consistent with the plan's overall investment principles and strategy described herein. There are no specific targets as to asset allocation other than those contained within the pooled fund that is managed by the authorized investment company.

The fair value of the assets held by the UK pension plan, by asset category, are as follows:

(Thousands) Asset Category	Fair Value at September 30, 2010	Fair Value Measurements Using Inputs Considered as Level I	Level II	Level III
Cash on deposit	$ 389	$ 389	$ —	—
Pooled Funds	7,548	—	7,548	—
Total Plan Assets	$ 7,937	$ 389	$ 7,548	—

The expected long-term rates of return on plan assets are equal to the yields to maturity of appropriate indices for government and corporate bonds and by adding a premium to the government bond return for equities. The expected rate of return on cash is the Bank of England base rate in force at the effective date.

Defined Contribution Plans

The Company has defined contribution plans in domestic and international locations under which the Company matches a portion of the employee's contributions and may make discretionary contributions to the plans. The Company's contributions were $141 thousand and $178 thousand for the years ended September 30, 2010 and 2009, respectively.

11. Lines of Credit

As of September 30, 2010 and September 30, 2009, the Company maintained lines of credit notes that allow for borrowings of up to $2.5 million. Availability under these facilities is reduced by outstanding borrowings thereunder. The interest rates on outstanding borrowings range from 2.5% over the London Inter-Bank Offer Rate ("LIBOR") with a floor of 4% to Prime plus 1%. Borrowings under the credit agreements are required to be repaid on demand by the lender in some cases, upon termination of the agreements or may be prepaid by the Company without penalty. The credit agreements contain various covenants including financial covenants which require the Company to maintain various financial ratios at prescribed levels. The Company is in compliance with all covenants as of September 30, 2010.

The Company had no borrowings outstanding under its lines of credit as of September 30, 2010 and September 30, 2009.

12. Commitments and Contingencies

Leases

The Company occupies office space under lease agreements expiring at various dates during the next five years. The leases are classified as operating leases and provide for the payment of real estate taxes, insurance, utilities and maintenance.

The Company was obligated under non-cancelable operating leases as follows:

Fiscal year ending September 30:	(Amounts in thousands)
2011	1,020
2012	698
2013	562
2014	497
2015	219
Thereafter	9
	$ 3,005

Occupancy expenses under the operating leases approximated $1.4 million in 2010 and $1.6 million in 2009.

Common Stock Repurchase

On February 3, 2009, the Board of Directors authorized the Company to purchase up to 350 thousand additional shares of the Company's outstanding common stock at market price. Pursuant to the aforementioned authorization and an authorization by our board of directors on November 13, 2007 to purchase 250 thousand shares, the Company repurchased approximately 95 thousand shares of its outstanding common stock during the year ended September 30, 2010. As of September 30, 2010, approximately 145 thousand shares remain authorized to repurchase under its stock repurchase program.

13. Segment and Geographical Information

The following table presents certain operating segment information.

		Service and System Integration Segment				
Years Ended September 30,	**Systems Segment**	**Germany**	**UK**	**US**	**Total**	**Consolidated Total**
		(Amounts in thousands)				
2010						
Sales:						
Product	$ 4,888	$ 15,369	$ 50	$ 58,436	$ 73,855	$ 78,743
Service	3,423	8,582	1,585	2,685	12,852	16,275
Total sales	8,311	23,951	1,635	61,121	86,707	95,018
Profit (loss) from operations	(316)	(153)	(81)	1,692	1,458	1,142
Assets	13,400	11,565	3,667	12,747	27,979	41,379
Capital expenditures	78	260	30	115	405	483
Depreciation and amortization	114	171	27	200	398	512
2009						
Sales:						
Product	$ 6,055	$ 15,588	$ 153	$ 45,441	$ 61,182	$ 67,237
Service	1,932	9,339	2,048	2,801	14,188	16,120
Total sales	7,987	24,927	2,201	48,242	75,370	83,357
Profit (loss) from operations	(684)	(728)	112	(3,629)	(4,245)	(4,929)
Assets	13,564	11,953	4,163	10,806	26,922	40,486
Capital expenditures	61	249	13	79	341	402
Depreciation and amortization	182	124	27	246	397	579

Profit (loss) from operations is sales less cost of sales, engineering and development, selling, general and administrative expenses but is not affected by either non-operating charges/income or by income taxes. Non-operating charges/income consists principally of interest income/expense and foreign exchange gain/loss.

All intercompany transactions have been eliminated.

The following table details the Company's sales by operating segment for fiscal years September 30, 2010 and 2009. The Company's sales by geographic area based on the location of where the products were shipped or services rendered are as follows:

2010	Americas	Europe	Asia	Total	% of Total
			(Amounts in thousands)		
Systems	$ 7,239	$ —	$ 1,072	$ 8,311	9%
Service and System Integration	60,555	26,118	34	86,707	91%
Total	$ 67,794	$ 26,118	$ 1,106	$ 95,018	100%
% of Total	71%	28%	1%	100%	

2009	Americas	Europe	Asia	Total	% of Total
			(Amounts in thousands)		
Systems	$ 5,799	$ —	$ 2,188	$ 7,987	10%
Service and System Integration	47,949	27,387	34	75,370	90%
Total	$ 53,748	$ 27,387	$ 2,222	$ 83,357	100%
% of Total	64%	33%	3%	100%	

Substantially all Americas amounts are United States.

Long-lived assets by geographic location at September 30, 2010 and 2009 were as follows:

	September 30, 2010	September 30, 2009
	(Amounts in thousands)	
North America	$ 985	$ 1,116
Europe	575	516
Totals	$ 1,560	$ 1,632

Deferred tax assets by geographic location at September 30, 2010 and 2009 were as follows:

	September 30, 2010	September 30, 2009
	(Amounts in thousands)	
North America	$ 377	$ 400
Europe	627	508
Totals	$ 1,004	$ 908

The Company had one customer from which we derived revenues in excess of 10% of total revenues for the years ended September 30, 2010 and 2009, listed below.

	Years Ended			
	September 30, 2010		September 30, 2009	
	Amount	% of Revenues	Amount	% of Revenues
	(Dollar amounts in thousands)			
Verio	$ 22.5	24%	$ 8.1	10%

14. Restructuring Expense

In connection with reductions in workforce in the German and U.K. divisions of Modcomp, the Company accrued a restructuring charge of approximately $268 thousand in the fourth quarter of fiscal 2009, which was charged to services cost of sales expense. This amount consists of termination payments to affected employees.

15. Loss Contingency

We record estimated loss contingencies when information is available that indicates that it is probable that a material loss has been incurred or an asset has been impaired and the amount of the loss can be reasonably estimated. We disclose if the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, or if an exposure to loss exists in excess of the amount accrued. Loss contingencies considered remote are generally not disclosed. Determining the likelihood of incurring a liability and estimating the amount of the liability involves judgment by management. If the event results in an outcome that has greater adverse consequences to us than management expects, then we may have to record additional charges in future periods.

The Company's U.S. Modcomp division ("Modcomp U.S."), which is part of the Service and System Integration segment, had a pricing dispute (the "Dispute") with one of its largest hardware manufacturers (the "Hardware Manufacturer"). The Dispute arose through the discovery that Modcomp U.S. was buying some products from the Hardware Manufacturer's distributors at incorrect prices. The prices that were incorrect arose from Modcomp U.S. and three of the Hardware Manufacturer's distributors misapplying discounts that were available for specific products for certain customers to customers for whom these discounts were not available.

In July 2009, the Company settled with the Hardware Manufacturer with respect to a portion of the transactions in which incorrect discounts were used. However, there are additional affected transactions, which are subject to further review by the Hardware Manufacturer which must be resolved before we will be able to agree on a final settlement with respect to these remaining transactions.

For the year ended September 30, 2009, we accrued approximately $337 thousand in additional cost of sales, approximately $174 thousand of which was paid to the Hardware Manufacturer under the settlement referred to above. We also reduced commissions and income tax expense by approximately $98 thousand and $103 thousand, for a net impact of approximately $137 thousand of additional net loss, for the year ended September 30, 2009, in connection with the Dispute. These amounts represented our best estimates of the liability associated with the Dispute for all transactions involved, whether settled or still under review. This estimate was based on the assumption that all of the transactions that were still under review would be resolved in substantially the same manner that the settled transactions had been, because management believed that the facts and circumstances of the transactions still under review are the same as for the transactions that had been settled. However, the Hardware Manufacturer had advised us that they needed more time to review the remaining affected transactions, and accordingly had not yet agreed to resolve the remaining transactions in the same manner as the previously settled transactions. Accordingly, there was a contingent liability with respect to the unsettled transactions, because the Hardware Manufacturer could assert a claim for amounts in excess of the estimates that we accrued in connection with the Dispute. The Company had assessed that an additional contingent loss related to the Dispute was reasonably possible, but not probable. Therefore, an accrual had not been recorded for the loss contingency as of September 30, 2009. For loss contingencies assessed at the reasonably possible level, the loss contingency must be disclosed and an estimate or range of possible loss must also be disclosed in the event that a reasonable estimate can be made. Accordingly, as of September 30, 2009, we estimated the range of the loss contingency associated with the Dispute was between $0 and $389 thousand.

In July 2010, the Hardware Manufacturer informed us that they had calculated an additional assessment in connection with the Dispute of approximately $306 thousand. As a result of this new information, we reevaluated the likelihood of the loss, and we determined that the loss was probable and estimable. Although we were still negotiating a final settlement with the Hardware Manufacturer, we determined that the amount that had been provided to us by the Hardware Manufacturer of approximately $306 thousand, was the best estimate of the loss, at that time. Accordingly, we accrued an additional $306 thousand as cost of sales for the nine months ended June 30, 2010.

In August 2010, we completed our negotiations with the Hardware Manufacturer. As a result of these negotiations, the final settlement agreed to between the Company and the Hardware manufacturer was approximately $47 thousand less then than the amount referred to above of $306 thousand, which was our best estimate of the contingent loss as of June 30, 2010. Accordingly, we reduced our accrual for this contingent loss by approximately $47 thousand, resulting in a final increase to cost of sales as a result of this settlement of approximately $259 thousand for the year ended September 30, 2010. This amount was paid to the Hardware manufacturer during the final quarter of fiscal 2010.

16. Fair Value Measures

Assets and Liabilities measured at fair value on a recurring basis are as follows:

	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Input (Level 3)**	**Total Balance**	**Gain or (loss)**
	As of September 30, 2010 (Amounts in thousands)				
Assets:					
Money Market funds	$ 3,482	$ —	$ —	$ 3,482	$ —
Total assets measured at fair value	$ 3,482	$ —	$ —	$ 3,482	$ —
	As of September 30, 2009 (Amounts in thousands)				
Assets:					
Money Market funds	$ 6,840	$ —	$ —	$ 6,840	$ —
Total assets measured at fair value	$ 6,840	$ —	$ —	$ 6,840	$ —

These assets are included in cash and cash equivalents in the accompanying consolidated balance sheets. All other monetary assets and liabilities are short-term in nature and approximate their fair value.

The Company had no liabilities measured at fair value as of September 30, 2010. The Company had no assets or liabilities measured at fair value on a non recurring basis as of September 30, 2010.

Corporate Information

Board of Directors	Officers
Alexander R. Lupinetti Chairman of the Board, President and Chief Executive Officer CSP Inc.	Alexander R. Lupinetti Chairman of the Board, President and Chief Executive Officer CSP Inc.
Christopher J. Hall Municipal Bond Investor (Self Employed)	Gary W. Levine Chief Financial Officer, Clerk and Treasurer CSP Inc.
C. Shelton James Principal C. Shelton James Associates	William E. Bent, Jr. Vice President and General Manager MultiComputer Division CSP Inc.
J. David Lyons Retired Managing Director The Carter Group, L.L.C.	Robert A. Stellato Vice President of Finance Chief Accounting Officer CSP Inc.
Robert M. Williams Retired Vice President IBM Corporation	Victor Dellovo Vice President and General Manager Modcomp Division CSP, Inc.
General Counsel	**Annual Meeting of Stockholders**
Foley Hoag LLP Boston, MA	All interested parties are cordially invited to attend the Annual Meeting of Stockholders on Tuesday, February 8, 2010 at 9:00 a.m. at the Company's corporate offices at 43 Manning Road, Billerica, MA 01821
Auditors	**Investor Relations**
McGladrey & Pullen, LLP Boston, MA	To obtain additional copies of the Company's Annual Report for the Fiscal Year 2010, including Form 10-K as filed with the Securities and Exchange Commission, contact the Vice President of Finance at CSP Inc.
Transfer Agent	
American Stock Transfer Company New York, NY	Financial data may also be accessed online at www.cspi.com

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Each of the below listed subsidiaries is 100% directly owned by CSP Inc. except as otherwise indicated, and all are included in the consolidated financial statements.

NAME OF SUBSIDIARY	STATE OR OTHER JURISDICTION OF INCORPORATION/ ORGANIZATION
CSP Inc. Securities Corp. 43 Manning Road Billerica, MA 01821-3901	Massachusetts
CSP Inc. Foreign Sales Corp., Ltd. 43 Manning Road Billerica, MA 01821-3901	U.S. Virgin Islands
Modcomp, Inc (1). 1500 South Powerline Road Deerfield Beach, FL 33442	Florida

(1) Modcomp has three subsidiaries operating in Europe

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement Nos. 333-64493, 333-124030, 333-124031 and 333-151024 on Form S-8 of CSP Inc. of our report dated December 22, 2010, relating to our audits of the consolidated financial statements which appear in this Annual Report on Form 10-K of CSP Inc. for the year ended September 30, 2010.

/s/ McGladrey & Pullen, LLP

Boston, Massachusetts
December 22, 2010

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Alexander R. Lupinetti, certify that:

1. I have reviewed this annual report on Form 10-K of CSP Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 22, 2010

By: /s/ A LEXANDER R. L UPINETTI

Alexander R. Lupinetti
Chief Executive Officer;
President and Chairman

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gary W. Levine, certify that:

1. I have reviewed this annual report on Form 10-K of CSP Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 22, 2010

By: /s/ G ARY W. L EVINE

Gary W. Levine
Chief Financial Officer

EXHIBIT 32.1

18 U.S.C. Section 1350,
CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of CSP Inc. (the “Company”) for year ended September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Chief Executive Officer of the Company, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 22, 2010

By: /s/ A LEXANDER R. L UPINETTI

Alexander R. Lupinetti
Chief Executive Officer;
President and Chairman

EXHIBIT 32.2

18 U.S.C. Section 1350,
CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of CSP Inc. (the "Company") for year ended September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Financial Officer, Vice President of Finance, Chief Financial Officer of the Company, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 22, 2010

By: /s/ G ARY W. L EVINE

Gary W. Levine
Chief Financial Officer

Exhibit 10.10

2011 Variable Compensation (Executive Bonus) and Base
Program for CSP Inc. Executive Management

The 2011 Variable Compensation and Base Pay programs provide the opportunity for incentive earnings for Vice Presidents and General Managers based on how well they and the company perform.

The Variable Compensation Program places emphasis on company performance and is focused on the business realities of the coming year. If CSPI does well, Vice Presidents and General Managers will too.

The Base Pay Program for Vice Presidents and General Managers contains a merit budget which places a premium on personal performance. Both programs are designed to encourage Vice Presidents and General Managers to provide the leadership and direction necessary to achieve the company's business goals.

These programs have three important goals:

1. *motivate performance*
2. *b* e *competitive*
3. *position the company to capitalize on the progress it makes this year.*

Competitive Compensation

The programs deliver a level of pay that is fully comparable to what other people in similar positions in different companies receive. The company knows that its pay levels must be competitive to attract and retain the talent we need to succeed as a company. We need highly-trained and uniquely skilled people to make decisions and provide the leadership that will help us achieve our business goals.

The review of the pay practices of our peer companies shows that Vice President and General Manager level positions contain a merit pay component as well as variable compensation. Personal performance measured against individual goals will determine each Vice President and General Managers' merit increase.

Variable Compensation

The Variable Compensation target incentive for Vice Presidents and General Managers is 20-50% of base pay. Each Vice President and General Manager will have their entire Variable Compensation based on a Revenue and Operating Income matrix for their specific operation.

Individual Performance Component

The individual performance component determines the merit increase percentage for Vice Presidents and General Managers.

The program scores individual performance for the following goals:

MBOs
Accountabilities
Group Performance Factors
Leadership

MBOs are performance improvement initiatives. Accountabilities are the day-to-day responsibilities of the job. Group performance factors are team achievement targets.

Leadership is a critical success factor for CSP in 2011, because we need leaders to motivate and reward people to drive our business growth in 2011. In evaluating leadership, CSP will measure several important factors linked to how well Vice Presidents and General Managers align their priorities and that of their people with the company's business strategies. The leadership evaluation will be determined by how well participants:

Communicate and implement the strategic direction. Foster the development of a strategy for their unit which is consistent with and supportive of the company's. Ensure that everyone in their organization has goals and accountabilities linked to the strategies, and that they are held accountable for delivering on them. Understand that implementing strategies may entail significant changes, and that will mean changes in them as well as their organization.

Create and sustain a culture focused on customers, quality, and people. Seek to understand the emerging culture and lead by example. Personally engage in behaviors which reflect our culture, and hold those in their organization accountable for that as well. Reinforce the importance of the culture by the action they take: select people who demonstrate the capability for more responsibility; reward those who do and communicate your support.

Motivate and develop your employees. Set high performance standards, communicate expected results and behaviors, and provide regular feedback to employees. Identify and remove barriers to employee success and be open to their ideas for improvement. Complete appraisals on time and reward employees for results. Insure that all employees have development plans which reflect company and individual interests. Delegate responsibility to employees based on their capabilities and interests. Increase employee visibility, decision making and responsibility. Attract, retain and develop people of diverse backgrounds.

Be open to developing yourself. Understand your own strengths and development needs, and strive to be more effective by building on the strengths and overcoming weak areas. Become an active learner, open to new ideas and approaches. Seek feedback from others, including your peers, direct reports and boss.

EXHIBIT 10.11

CHANGE OF CONTROL AGREEMENT

This Change of Control Agreement (the "Agreement") is made and entered into effective as of January 11, 2008, by and between Alexander R. Lupinetti (the "Executive") and CSP, Inc., a Massachusetts corporation with principle offices at 43 Manning Road, Billerica, Massachusetts, 01821 (the "Company").

Whereas, t he Executive is and has been employed by the Company and is currently the Company's President and Chief Executive Officer; and

Whereas, it is expected that the Company may, from time to time consider the possibility of an acquisition by another company or other Change of Control (as defined in Section 5 below), and the Company recognizes that such consideration can be a distraction to the Executive and can cause the Executive to consider alternative employment opportunities; and

Whereas , the Company has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control of the Company; and

Whereas, the Company and the Executive desire to enter into this Agreement to provide financial security to the Executive and to encourage the Executive to continue his employment with and dedication to the Company;

Now, therefore, the parties agree as follows:

1. Duties and Scope of Employment.

1.1 Position. The Company shall employ the Executive in the position of President and Chief Executive Officer, as such position has been defined in terms of responsibilities and compensation as of the effective date of this Agreement; provided, however, that the Company’s Board of Directors (the “Board”) shall have the right, at any time prior to the occurrence of a Change of Control, to revise such responsibilities and compensation as the Board in its discretion may deem necessary or appropriate, subject to the other provisions of this Agreement. The Executive shall comply with and be bound by the Company's operating policies, procedures and practices from time to time in effect during his employment. During the term of the Executive's employment with the Company, the Executive shall continue to devote his full time, skill and attention to his duties and responsibilities, and shall perform them faithfully, diligently and competently, and the Executive shall use his best efforts to further the business of the Company and its affiliated entities. The foregoing shall not prevent the Executive from a reasonable amount of service on the boards of directors of any entities, subject to the terms of any non-competition obligations he may have to the Company from time to time, nor from engaging in academic, religious, charitable or other community or non-profit activities that do not impair his ability to fulfill his duties and responsibilities under this Agreement.

1.2. Base Compensation. The Company shall pay the Executive as compensation for his services a base salary at the annualized rate to be established by the Compensation Committee of the Board (the “Compensation Committee”). Such salary shall be paid periodically in accordance with normal Company payroll practices. The annualized compensation specified in this Section 1.2, as such compensation may be increased or (subject to the other provisions of this Agreement) decreased by the Board or the Compensation Committee, is referred to in this Agreement as "Base Compensation."

1.3 Variable Compensation. Beginning with the Company's current fiscal year and for each fiscal year thereafter during the term of this Agreement, the Executive shall be eligible to receive additional cash compensation under the Company's Variable Compensation Program (the "Variable Compensation Bonus") based upon specific financial and/or other targets approved by the Compensation Committee. The Variable Compensation payable hereunder shall be payable in accordance with the Company's normal practices and policies.

1.4 Executive Benefits. The Executive shall be eligible to participate in the employee benefit plans and executive compensation programs maintained by the Company applicable to other key executives of the Company, including (without limitation) retirement plans, SERPs, savings or profit-sharing plans, stock option, incentive or other bonus plans, life, disability, health, accident and other insurance programs, paid vacations, and similar plans or programs, subject in each case to the generally applicable terms and conditions of the applicable plan or program in question and to the sole determination of the Board or any committee administering such plan or program.

1.5 Employment Relationship. The Executive's employment is and shall continue to be defined and governed by the terms of the Employment Agreement between CSP, Inc. and Alexander R. Lupinetti, dated September 12, 1996 (the "Employment Agreement"), as supplemented by the provisions of this Agreement. If the Executive's employment terminates for any reason, the Executive shall not be entitled to any payments, benefits, damages, awards or compensation other than (i) payment of amounts earned or accrued as of the date of termination of employment, (ii) as provided by (a) the Employment Agreement, (b) this Agreement or (c) required by law, or (iii) as may otherwise be available in accordance with the Company's established employee plans and policies (including any deferred compensation plans) at the time of termination.

1.6 Termination for Cause, Death or Disability or Voluntary Resignation. If the Executive voluntarily resigns from the Company, or if the Company terminates the Executive's employment for Cause or because of the Executive's Death or Disability, then the Executive shall not be entitled to receive severance or other benefits described in Section 4 below.

2. Release

All payments due to the Executive under this Agreement shall be conditioned upon and are in consideration of the execution by the Executive of a full Release in a form reasonably prescribed by the Company ("Release"), releasing the Company and its officers, directors, employees and advisors from any and all liability to and including the date of the Termination Notice or Change in Status, save only for claims for breach of this Agreement.

3. Non-Solicitation

In consideration of the Company paying the benefits described in Section 4 below, Executive agrees that for a period of six months after he leaves the employment of Company, Executive shall not, either directly or indirectly: (1) make known to any person, firm or corporation the names and/or addresses of any of the customers or employees of Company or any other information pertaining to them; (2) take away any of the customers of Company on whom Executive called, or with whom Executive dealt or became acquainted during Executive's employment with Company; or (3) interfere with the business of Company in any manner including the recruiting or hiring of any employee of Company. Executive further agrees that Company would be irreparably harmed in the event of a breach of this provision, and that money damages would not be an adequate remedy. Accordingly, in addition to any other remedies available at law or in equity, Company shall be entitled to obtain injunctive relief against any such breach or threatened breach.

4. Change of Control.

4.1 Severance Payments; Benefits.

(a) Upon the occurrence of an Change of Control, or if the Company Terminates the Executive other than for Cause either in anticipation of or as required to accomplish a Change of Control, the Executive shall be entitled to receive a severance payment equal to the sum of (i) two times the Executive's Base Compensation for the Company's fiscal year then in effect or if greater, two times the Executive's Base Compensation for the Company's fiscal year immediately preceding the year in which the Termination occurs, plus (ii) two times the Executive's Annual Target Variable Compensation Bonus for the fiscal year then in effect (or, if no Target Incentive is in effect for such year, then the highest Variable Compensation Bonus or other aggregate bonus(es) actually paid to the Executive in any of the three (3) preceding fiscal years); provided, however, that a signed Release must be received by the Company from the Executive prior to and as a condition of receiving a severance payment. Any severance payments to which the Executive is entitled pursuant to this Section 4.1 shall be paid to the Executive (or to the Executive's estate or beneficiary in the event of the Executive's death) in a lump sum within fifteen (15) days of the Executive's Termination Date.

(b) Notwithstanding anything in the previous paragraph or elsewhere in this Agreement, if the Company Terminates the Executive other than for Cause either in anticipation of or as required to accomplish or otherwise substantially contemporaneously with a Change of Control, the Company shall provide the Executive with notice of such Termination, and the Termination shall not be effective until the end of the Notice Period. The Notice Period shall extend until the later of sixty days after the expiration of any period that the Executive must hold shares in the Company in order (i) to avoid liability under Section 16 (b) of the Securities Exchange Act of 1934, as amended or (ii) to comply, at the Company's reasonable request or the Executive's reasonable initiative, with any other legal or accounting regulations or requirements. Provided, however, that in calculating the payments to be made to the Executive pursuant to Section 4.1(a) above, any compensation paid to the Executive with respect to his employment during the Notice Period shall be deducted from the payments due under Section 4.1(a).

4.2 Option Acceleration. Effective upon a Change in Control (as defined below in Section 5) of the Company, all Options and Restricted Stock Awards granted to the Executive and then outstanding under any Stock Option Plan of the Company shall become exercisable and vested in full, and all restrictions thereon shall lapse, notwithstanding any vesting schedule or other provisions to the contrary in the agreements evidencing such options; and the Company and the Executive hereby agree that such Option agreements and Restricted Stock Awards are hereby and will be deemed amended to give effect to this provision.

4.3 Health and Welfare Benefits . Following a Change in Control, the Executive shall be entitled to continue, for two years, to receive the same or comparable health and welfare benefits as he participated in prior to the Change in Control, such as but not limited to life, disability, health, medical, dental, accident and other insurance programs ("Benefits" and the "Benefit Plans"). The Company shall provide such Benefits to the Executive by one or a combination of the following: (i) continuing the Executive as a participant under the Company's then-current benefit plans (provided such plans are comparable to the Company plans prior to the Change in Control), (ii) paying the full premium for the Executive to purchase continuing coverage under the Benefit Plans, under COBRA and/or (iii) paying the Executive a lump sum payment in the amount necessary for the Executive to purchase individual coverage under insurance programs comparable to the Benefit Plans.

4.4 Exercise of Stock Options; Payment of Required Taxes. Following a Change of Control, the Executive may take any or all of the following actions; Provided, however, that the Executive shall not take any such action if the Company reasonably requests that he not do so, in order for the company to comply with or receive favorable treatment under legal or accounting requirements: pay any portion of the exercise price of any Options and/or satisfy any tax withholding with respect to either the exercise of Options or the vesting of Restricted Stock Awards by:

(i) delivering to the Company outstanding shares of common stock of the Company, valued at the closing price of a share of such stock on the last trading day preceding the date of delivery (the "Market Price") and/or

(ii) authorizing the Company to withhold from issuance pursuant to the exercise of any such Option or vesting of Restricted Stock a number of shares of common stock otherwise issuable that, when multiplied by the Market Price of the common stock, is equal to the aggregate exercise price being paid and/or tax being withheld (and such withheld shares shall no longer be issuable under the applicable Option or Restricted Stock Award).

5. Definition of Terms.

5.1 Terminate/Termination. "Terminate," "Terminates," and "Termination" shall mean either (a) the termination of the Executive's employment with the Company or (b) a Change in Status of the Executive, as defined below.

5.2 Change in Status. A "Change in Status" of the Executive shall mean the occurrence, without the Executive's written consent, of any of the following circumstances (unless such circumstances constitute an isolated, insubstantial and inadvertent action not taken in bad faith and are promptly and fully remedied by the Company after receipt of notice thereof by the Executive): (a) any diminution or change in a manner adverse to the Executive of (i) his title, office or position with the Company, (ii) his salary, bonus, or other benefits, or (iii) his duties, responsibilities or employment condition, (b) any breach of this Agreement, including without limitation the failure by the Company to pay to the Executive any portion of his compensation, (c) the Company's requiring the Executive to be based at any office or location more than 35 miles from the company's current main office or the Company's requiring the Executive to travel on Company business to a substantially greater extent than required immediately before the date of this Agreement, or (d) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement.

5.3 Cause. "Cause" shall mean (a) any act of personal dishonesty taken by the Executive in connection with his responsibilities as an employee and intended to result in substantial personal enrichment of the Executive, (b) conviction of a felony that is injurious to the Company, (c) a willful act by the Executive which constitutes gross misconduct and which is injurious to the Company, and (d) continued violations by the Executive of the Executive's obligations under Section 1 of this Agreement that are demonstrably willful and deliberate on the Executive's part (and not resulting from any condition that constitutes, or with the passage of time would constitute, a Disability (as defined below)) after there has been delivered to the Executive a written demand for performance from the Company which describes the basis for the Company's belief that the Executive has not substantially performed his duties, in each case as determined by the Company's Board of Directors.

5.4 Change of Control. "Change of Control" shall mean the occurrence of any of the following events:

(a) Any transaction or series of transactions, as a result of which any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act and the rules and regulations thereunder) (other than (i) the Company, (ii) a person that directly or indirectly controls the Company on the date of this Agreement, (iii) a person that is controlled by or is under common control with the Company or (iv) any one or more employee benefit plans or related trusts established for the benefit of the employees of the Company or any affiliate of the Company) becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(b) A change in the composition of the Board of Directors of the Company occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (i) are directors of the Company as of the date hereof, or (ii) are elected, or nominated for election, to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual not otherwise an Incumbent Director whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(c) A merger or consolidation of the Company with any other corporation or entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the approval by the stockholders of the Company of an agreement for the sale or disposition by the Company of all or substantially all the company's assets.

5.5 Disability. "Disability" shall mean that the Executive has been unable to substantially perform his duties under this Agreement as the result of his incapacity due to physical or mental illness, and such inability, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such Agreement as to acceptability not to be unreasonably withheld). Nothing contained herein shall preclude the Company from appointing or employing any other person to carry out the duties and responsibilities of the Executive, nor shall any such appointment or employment give rise to a Change of Status, in the event of the occurrence of a physical or mental illness or injury likely in the reasonable judgement of the Company to result eventually in a determination of Disability.

5.6 Stock Option Plan. A "Stock Option Plan" of the Company shall mean any stock option or equity compensation plan of the Company in effect at any time, including without limitation the CSP, Inc. 1991 Incentive Stock Plan, 1997 Incentive Stock Plan, 2003 Stock Incentive Plan, 2007 Stock Incentive Plan and any other stock options granted to the Executive. The terms "Option" and "Restricted Stock Award" shall have the meanings ascribed to them in any such Stock Option Plans.

6. Successors.

6.1 Company's Successors. The Company shall cause any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and assets to assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any such successor.

6.2 Executive's Successors. The terms of this Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, devisees and legatees.

7. Notice.

7.1 General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or two business days after being mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

7.2 Notice of Termination or Change in Status. Any Termination by the Company or any claim by the Executive of a Change in Status shall be communicated by a notice to the other party hereto given in accordance with Section 7.1 of this Agreement. Such notice shall indicate the specific provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination or Change of Status under the provision so indicated, and shall specify the Date on which the Executive shall be Terminated or on which the Change of Status occurred. The failure by either party to include in the notice any fact or circumstance which contributes to a showing of Cause or Change in Status shall not waive any right of the party hereunder or preclude the party from asserting such fact or circumstance in enforcing its rights hereunder.

8. Miscellaneous Provisions.

8.1 Waiver . No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

8.2 Whole Agreement. No agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof. The foregoing notwithstanding, this Agreement is unrelated to, and shall have no effect upon any deferred compensation agreement or program in effect regarding the Executive.

8.3 Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Massachusetts without giving effect to its conflicts of laws principles.

8.4 Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

8.5 No Assignment of Benefits . The rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this Section 8.5 shall be void.

8.6 Employment Taxes. All payments made pursuant to this Agreement will be subject to withholding of applicable income and employment taxes.

8.7 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

CSP, Inc.	Executive
By: /s/ J. David Lyons	/s/ Alex R. Lupinetti
Title: Director	

Exhibit 10.12

CHANGE OF CONTROL AGREEMENT

This Change of Control Agreement (the "Agreement") is made and entered into effective as of January 11, 2008 by and between Gary Levine (the "Executive") and CSP, Inc., a Massachusetts corporation with principle offices at 43 Manning Road, Billerica, Massachusetts, 01821 (the "Company").

Whereas, t he Executive is and has been employed by the Company and is currently the Company's Chief Financial Officer; and

Whereas, it is expected that the Company may, from time to time consider the possibility of an acquisition by another company or other Change of Control (as defined in Section 5 below), and the Company recognizes that such consideration can be a distraction to the Executive and can cause the Executive to consider alternative employment opportunities; and

Whereas , the Company has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control of the Company; and

Whereas, the Company and the Executive desire to enter into this Agreement to provide financial security to the Executive and to encourage the Executive to continue his employment with and dedication to the Company;

Now, therefore, the parties agree as follows:

1. Duties and Scope of Employment.

1.1 Position. The Company shall employ the Executive in the position of Chief Financial Officer, as such position has been defined in terms of responsibilities and compensation as of the effective date of this Agreement; provided, however, that the Company's Board of Directors (the "Board") shall have the right, at any time prior to the occurrence of a Change of Control, to revise such responsibilities and compensation as the Board in its discretion may deem necessary or appropriate, subject to the other provisions of this Agreement. The Executive shall comply with and be bound by the Company's operating policies, procedures and practices from time to time in effect during his employment. During the term of the Executive's employment with the Company, the Executive shall continue to devote his full time, skill and attention to his duties and responsibilities, and shall perform them faithfully, diligently and competently, and the Executive shall use his best efforts to further the business of the Company and its affiliated entities. The foregoing shall not prevent the Executive from a reasonable amount of service on the boards of directors of any entities, subject to the terms of any non-competition obligations he may have to the Company from time to time, nor from engaging in academic, religious, charitable or other community or non-profit activities that do not impair his ability to fulfill his duties and responsibilities under this Agreement.

1.2. Base Compensation. The Company shall pay the Executive as compensation for his services a base salary at the annualized rate to be established by the Compensation Committee of the Board (the "Compensation Committee"). Such salary shall be paid periodically in accordance with normal Company payroll practices. The annualized compensation specified in this Section 1.2, as such compensation may be increased or (subject to the other provisions of this Agreement) decreased by the Board or the Compensation Committee, is referred to in this Agreement as "Base Compensation."

1.3 Variable Compensation. Beginning with the Company's current fiscal year and for each fiscal year thereafter during the term of this Agreement, the Executive shall be eligible to receive additional cash compensation under the Company's Variable Compensation Program (the "Variable Compensation Bonus") based upon specific financial and/or other targets approved by the Compensation Committee. The Variable Compensation payable hereunder shall be payable in accordance with the Company's normal practices and policies.

1.4 Executive Benefits. The Executive shall be eligible to participate in the employee benefit plans and executive compensation programs maintained by the Company applicable to other key executives of the Company, including (without limitation) retirement plans, SERPs, savings or profit-sharing plans, stock option, incentive or other bonus plans, life, disability, health, accident and other insurance programs, paid vacations, and similar plans or programs, subject in each case to the generally applicable terms and conditions of the applicable plan or program in question and to the sole determination of the Board or any committee administering such plan or program.

1.5 Employment Relationship. The Executive's employment is and shall continue to be solely that of an employee at will, as supplemented by the provisions of this Agreement. If the Executive's employment terminates for any reason, the Executive shall not be entitled to any payments, benefits, damages, awards or compensation other than (i) payment of amounts earned or accrued as of the date of termination of employment, (ii) as provided by this Agreement or required by law, or (iii) as may otherwise be available in accordance with the Company's established employee plans and policies (including any deferred compensation and retirement plans) at the time of termination.

1.6 Termination for Cause, Death or Disability or Voluntary Resignation. If the Executive voluntarily resigns from the Company, or if the Company terminates the Executive's employment for Cause or because of the Executive’s Death or Disability, then the Executive shall not be entitled to receive severance or other benefits described in Section 4 below.

2. Release

All payments due to the Executive under this Agreement shall be conditioned upon and are in consideration of the execution by the Executive of a full Release in a form reasonably prescribed by the Company (“Release”), releasing the Company and its officers, directors, employees and advisors from any and all liability to and including the date of the Termination Notice or Change in Status, save only for claims for breach of this Agreement.

3. Non-Solicitation

In consideration of the Company paying the benefits described in Section 4 below, Executive agrees that for a period of six months after he leaves the employment of Company, Executive shall not, either directly or indirectly: (1) make known to any person, firm or corporation the names and/or addresses of any of the customers or employees of Company or any other information pertaining to them; (2) take away any of the customers of Company on whom Executive called, or with whom Executive dealt or became acquainted during Executive’s employment with Company; or (3) interfere with the business of Company in any manner including the recruiting or hiring of any employee of Company. Executive further agrees that Company would be irreparably harmed in the event of a breach of this provision, and that money damages would not be an adequate remedy. Accordingly, in addition to any other remedies available at law or in equity, Company shall be entitled to obtain injunctive relief against any such breach or threatened breach.

4. Change of Control.

4.1 Severance Payments; Benefits.

(a) Upon the occurrence of an Change of Control, or if the Company Terminates the Executive other than for Cause either in anticipation of or as required to accomplish a Change of Control, the Executive shall be entitled to receive a severance payment equal to the sum of (i) the Executive's Base Compensation for the Company's fiscal year then in effect or if greater, the Executive's Base Compensation for the Company's fiscal year immediately preceding the year in which the Termination occurs, plus (ii) the Executive's Annual Target Variable Compensation Bonus for the fiscal year then in effect (or, if no Target Incentive is in effect for such year, then the highest Variable Compensation Bonus or other aggregate bonus(es) actually paid to the Executive in any of the three (3) preceding fiscal years); provided, however, that a signed Release must be received by the Company from the Executive prior to and as a condition of receiving a severance payment. Any severance payments to which the Executive is entitled pursuant to this Section 4.1 shall be paid to the Executive (or to the Executive's estate or beneficiary in the event of the Executive's death) in a lump sum within fifteen (15) days of the Executive's Termination Date.

(b) Notwithstanding anything in the previous paragraph or elsewhere in this Agreement, if the Company Terminates the Executive other than for Cause either in anticipation of or as required to accomplish or otherwise substantially contemporaneously with a Change of Control, the Company shall provide the Executive with notice of such Termination, and the Termination shall not be effective until the end of the Notice Period. The Notice Period shall extend until the later of sixty days after the expiration of any period that the Executive must hold shares in the Company in order (i) to avoid liability under Section 16 (b) of the Securities Exchange Act of 1934, as amended or (ii) to comply, at the Company's reasonable request or the Executive's reasonable initiative, with any other legal or accounting regulations or requirements. Provided, however, that in calculating the payments to be made to the Executive pursuant to Section 4.1(a) above, any compensation paid to the Executive with respect to his employment during the Notice Period shall be deducted from the payments due under Section 4.1(a).

4.2 Option Acceleration. Effective upon a Change in Control (as defined below in Section 5) of the Company, all Options and Restricted Stock Awards granted to the Executive and then outstanding under any Stock Option Plan of the Company shall become exercisable and vested in full, and all restrictions thereon shall lapse, notwithstanding any vesting schedule or other provisions to the contrary in the agreements evidencing such options; and the Company and the Executive hereby agree that such Option agreements and Restricted Stock Awards are hereby and will be deemed amended to give effect to this provision.

4.3 Health and Welfare Benefits . Following a Change in Control, the Executive shall be entitled to continue, for one year, to receive the same or comparable health and welfare benefits as he participated in prior to the Change in Control, such as but not limited to life, disability, health, medical, dental, accident and other insurance programs ("Benefits" and the "Benefit Plans"). The Company shall provide such Benefits to the Executive by one or a combination of the following: (i) continuing the Executive as a participant under the Company's then-current benefit plans (provided such plans are comparable to the Company plans prior to the Change in Control), (ii) paying the full premium for the Executive to purchase continuing coverage under the Benefit Plans, under COBRA and/or (iii) paying the Executive a lump sum payment in the amount necessary for the Executive to purchase individual coverage under insurance programs comparable to the Benefit Plans. This paragraph is not intended to limit or affect any other COBRA benefits to which the Executive may be entitled.

4.4 Exercise of Stock Options; Payment of Required Taxes. Following a Change of Control, the Executive may take any or all of the following actions; Provided, however, that the Executive shall not take any such action if the Company reasonably requests that he not do so, in order for the company to comply with or receive favorable treatment under legal or accounting requirements: pay any portion of the exercise price of any Options and/or satisfy any tax withholding with respect to either the exercise of Options or the vesting of Restricted Stock Awards by:

(i) delivering to the Company outstanding shares of common stock of the Company, valued at the closing price of a share of such stock on the last trading day preceding the date of delivery (the "Market Price") and/or

(ii) authorizing the Company to withhold from issuance pursuant to the exercise of any such Option or vesting of Restricted Stock a number of shares of common stock otherwise issuable that, when multiplied by the Market Price of the common stock, is equal to the aggregate exercise price being paid and/or tax being withheld (and such withheld shares shall no longer be issuable under the applicable Option or Restricted Stock Award).

4.5 Retirement Plan Agreement. The Company and the Executive each acknowledge that they are parties to a Divided Ownership Assignment Plan and Agreement And Retirement Plan Agreement, entered into as of May 3, 1999 (the "Retirement Plan Agreement"). Under Article XII of the Retirement Plan Agreement, "Employee's Separate Retirement Payment Obligation," the Employee is entitled to certain benefits upon retirement or attainment of age 62. The Parties intend that the Employee shall be entitled to vest in and be entitled to receive his full benefits upon a Change of Control, and accordingly agree to amend the first sentence of Article XII, Subparagraph A of the Retirement Plan Agreement, so that it reads as follows: "A. Either (1) upon the occurrence of a Change in Control; or (2) at the date, the latter of retirement and age Sixty-Two (62) Years; and if, in either case prior to such time the Employee's employment with the Corporation has not been terminated by the Corporation for Cause (as that term is defined in Article X(A)(I)) then in such events and only in such events, the Employee shall have the option, on and after such date, to receive, and the Corporation shall have the obligation to pay to Employee, the following amounts, at the following times, subject to the following provisions, limitations, restrictions and adjustments.…"

5. Definition of Terms.

5.1 Terminate/Termination. "Terminate," "Terminates," and "Termination" shall mean either (a) the termination of the Executive's employment with the Company or (b) a Change in Status of the Executive, as defined below.

5.2 Change in Status. A "Change in Status" of the Executive shall mean the occurrence, without the Executive's written consent, of any of the following circumstances (unless such circumstances constitute an isolated, insubstantial and inadvertent action not taken in bad faith and are promptly and fully remedied by the Company after receipt of notice thereof by the Executive): (a) any diminution or change in a manner adverse to the Executive of (i) his title, office or position with the Company, (ii) his salary, bonus, or other benefits, or (iii) his duties, responsibilities or employment condition, (b) any breach of this Agreement, including without limitation the failure by the Company to pay to the Executive any portion of his compensation, (c) the Company's requiring the Executive to be based at any office or location more than 35 miles from the company's current main office or the Company's requiring the Executive to travel on Company business to a substantially greater extent than required immediately before the date of this Agreement, or (d) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement.

5.3 Cause. "Cause" shall mean (a) any act of personal dishonesty taken by the Executive in connection with his responsibilities as an employee and intended to result in substantial personal enrichment of the Executive, (b) conviction of a felony that is injurious to the Company, (c) a willful act by the Executive which constitutes gross misconduct and which is injurious to the Company, and (d) continued violations by the Executive of the Executive's obligations under Section 1 of this Agreement that are demonstrably willful and deliberate on the Executive's part (and not resulting from any condition that constitutes, or with the passage of time would constitute, a Disability (as defined below)) after there has been delivered to the Executive a written demand for performance from the Company which describes the basis for the Company's belief that the Executive has not substantially performed his duties, in each case as determined by the Company's Board of Directors.

5.4 Change of Control. "Change of Control" shall mean the occurrence of any of the following events:

(a) Any transaction or series of transactions, as a result of which any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act and the rules and regulations thereunder) (other than (i) the Company, (ii) a person that directly or indirectly controls the Company on the date of this Agreement, (iii) a person that is controlled by or is under common control with the Company or (iv) any one or more employee benefit plans or related trusts established for the benefit of the employees of the Company or any affiliate of the Company) becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(b) A change in the composition of the Board of Directors of the Company occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (i) are directors of the Company as of the date hereof, or (ii) are elected, or nominated for election, to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual not otherwise an Incumbent Director whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(c) A merger or consolidation of the Company with any other corporation or entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the approval by the stockholders of the Company of an agreement for the sale or disposition by the Company of all or substantially all the company's assets.

5.5 Disability. "Disability" shall mean that the Executive has been unable to substantially perform his duties under this Agreement as the result of his incapacity due to physical or mental illness, and such inability, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such Agreement as to acceptability not to be unreasonably withheld). Nothing contained herein shall preclude the Company from appointing or employing any other person to carry out the duties and responsibilities of the Executive, nor shall any such appointment or employment give rise to a Change of Status, in the event of the occurrence of a physical or mental illness or injury likely in the reasonable judgement of the Company to result eventually in a determination of Disability.

5.6 Stock Option Plan. A "Stock Option Plan" of the Company shall mean any stock option or equity compensation plan of the Company in effect at any time, including without limitation the CSP, Inc. 1991 Incentive Stock Plan, 1997 Incentive Stock Plan, 2003 Stock Incentive Plan, 2007 Stock Incentive Plan and any other stock options granted to the Executive. The terms “Option” and “Restricted Stock Award” shall have the meanings ascribed to them in any such Stock Option Plans.

6. Successors.

6.1 Company's Successors. The Company shall cause any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and assets to assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any such successor.

6.2 Executive's Successors. The terms of this Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, devisees and legatees.

7. Notice.

7.1 General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or two business days after being mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

7.2 Notice of Termination or Change in Status. Any Termination by the Company or any claim by the Executive of a Change in Status shall be communicated by a notice to the other party hereto given in accordance with Section 7.1 of this Agreement. Such notice shall indicate the specific provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination or Change of Status under the provision so indicated, and shall specify the Date on which the Executive shall be Terminated or on which the Change of Status occurred. The failure by either party to include in the notice any fact or circumstance which contributes to a showing of Cause or Change in Status shall not waive any right of the party hereunder or preclude the party from asserting such fact or circumstance in enforcing its rights hereunder.

8. Miscellaneous Provisions.

8.1 Waiver . No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

8.2 Whole Agreement. No agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof. The foregoing notwithstanding, this Agreement is unrelated to, and shall have no effect upon any deferred compensation agreement or program in effect regarding the Executive.

8.3 Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Massachusetts without giving effect to its conflicts of laws principles.

8.4 Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

8.5 No Assignment of Benefits . The rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this Section 8.5 shall be void.

8.6 Employment Taxes. All payments made pursuant to this Agreement will be subject to withholding of applicable income and employment taxes.

8.7 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

CSP, Inc.	Executive
By: /s/ J. David Lyons	/s/ Gary W. Levine
Title: Director	

Exhibit 10.13

CHANGE OF CONTROL AGREEMENT

This Change of Control Agreement (the "Agreement") is made and entered into effective as of January 11, 2008, by and between Robert Stellato (the "Executive") and CSP, Inc., a Massachusetts corporation with principle offices at 43 Manning Road, Billerica, Massachusetts, 01821 (the "Company").

Whereas, t he Executive is and has been employed by the Company and is currently the Company's Vice President of Finance; and

Whereas, it is expected that the Company may, from time to time consider the possibility of an acquisition by another company or other Change of Control (as defined in Section 5 below), and the Company recognizes that such consideration can be a distraction to the Executive and can cause the Executive to consider alternative employment opportunities; and

Whereas , the Company has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control of the Company; and

Whereas, the Company and the Executive desire to enter into this Agreement to provide financial security to the Executive and to encourage the Executive to continue his employment with and dedication to the Company;

Now, therefore, the parties agree as follows:

1. Duties and Scope of Employment.

1.1 Position. The Company shall employ the Executive in the position of Vice President of Finance, as such position has been defined in terms of responsibilities and compensation as of the effective date of this Agreement; provided, however, that the Company's Board of Directors (the "Board") shall have the right, at any time prior to the occurrence of a Change of Control, to revise such responsibilities and compensation as the Board in its discretion may deem necessary or appropriate, subject to the other provisions of this Agreement. The Executive shall comply with and be bound by the Company's operating policies, procedures and practices from time to time in effect during his employment. During the term of the Executive's employment with the Company, the Executive shall continue to devote his full time, skill and attention to his duties and responsibilities, and shall perform them faithfully, diligently and competently, and the Executive shall use his best efforts to further the business of the Company and its affiliated entities. The foregoing shall not prevent the Executive from a reasonable amount of service on the boards of directors of any entities, subject to the terms of any non-competition obligations he may have to the Company from time to time, nor from engaging in academic, religious, charitable or other community or non-profit activities that do not impair his ability to fulfill his duties and responsibilities under this Agreement.

1.2. Base Compensation. The Company shall pay the Executive as compensation for his services a base salary at the annualized rate to be established by the Compensation Committee of the Board (the "Compensation Committee"). Such salary shall be paid periodically in accordance with normal Company payroll practices. The annualized compensation specified in this Section 1.2, as such compensation may be increased or (subject to the other provisions of this Agreement) decreased by the Board or the Compensation Committee, is referred to in this Agreement as "Base Compensation."

1.3 Variable Compensation. Beginning with the Company's current fiscal year and for each fiscal year thereafter during the term of this Agreement, the Executive shall be eligible to receive additional cash compensation under the Company's Variable Compensation Program (the "Variable Compensation Bonus") based upon specific financial and/or other targets approved by the Compensation Committee. The Variable Compensation payable hereunder shall be payable in accordance with the Company's normal practices and policies.

1.4 Executive Benefits. The Executive shall be eligible to participate in the employee benefit plans and executive compensation programs maintained by the Company applicable to other key executives of the Company, including (without limitation) retirement plans, savings or profit-sharing plans, stock option, incentive or other bonus plans, life, disability, health, accident and other insurance programs, paid vacations, and similar plans or programs, subject in each case to the generally applicable terms and conditions of the applicable plan or program in question and to the sole determination of the Board or any committee administering such plan or program.

1.5 Employment Relationship. The Executive's employment is and shall continue to be solely that of an employee at will, as supplemented by the provisions of this Agreement. If the Executive's employment terminates for any reason, the Executive shall not be entitled to any payments, benefits, damages, awards or compensation other than (i) payment of amounts earned or accrued as of the date of termination of employment, (ii) as provided by this Agreement or required by law, or (iii) as may otherwise be available in accordance with the Company's established employee plans and policies (including any deferred compensation and retirement plans) at the time of termination.

1.6 Termination for Cause, Death or Disability or Voluntary Resignation. If the Executive voluntarily resigns from the Company, or if the Company terminates the Executive's employment for Cause or because of the Executive's Death or Disability, then the Executive shall not be entitled to receive severance or other benefits described in Section 4 below.

2. Release

All payments due to the Executive under this Agreement shall be conditioned upon and are in consideration of the execution by the Executive of a full Release in a form reasonably prescribed by the Company ("Release"), releasing the Company and its officers, directors, employees and advisors from any and all liability to and including the date of the Termination Notice or Change in Status, save only for claims for breach of this Agreement.

3. Non-Solicitation

In consideration of the Company paying the benefits described in Section 4 below, Executive agrees that for a period of six months after he leaves the employment of Company, Executive shall not, either directly or indirectly: (1) make known to any person, firm or corporation the names and/or addresses of any of the customers or employees of Company or any other information pertaining to them; (2) take away any of the customers of Company on whom Executive called, or with whom Executive dealt or became acquainted during Executive's employment with Company; or (3) interfere with the business of Company in any manner including the recruiting or hiring of any employee of Company. Executive further agrees that Company would be irreparably harmed in the event of a breach of this provision, and that money damages would not be an adequate remedy. Accordingly, in addition to any other remedies available at law or in equity, Company shall be entitled to obtain injunctive relief against any such breach or threatened breach.

4. Change of Control.

4.1 Severance Payments; Benefits.

(a) Upon the occurrence of an Change of Control, or if the Company Terminates the Executive other than for Cause either in anticipation of or as required to accomplish a Change of Control, the Executive shall be entitled to receive a severance payment equal to the sum of (i) one-half of the Executive's Base Compensation for the Company's fiscal year then in effect or if greater, one-half of the Executive's Base Compensation for the Company's fiscal year immediately preceding the year in which the Termination occurs, plus (ii) one-half of the Executive's Annual Target Variable Compensation Bonus for the fiscal year then in effect (or, if no Target Incentive is in effect for such year, then one-half of the highest Variable Compensation Bonus or other aggregate bonus(es) actually paid to the Executive in any of the three (3) preceding fiscal years); provided, however, that a signed Release must be received by the Company from the Executive prior to and as a condition of receiving a severance payment. Any severance payments to which the Executive is entitled pursuant to this Section 4.1 shall be paid to the Executive (or to the Executive's estate or beneficiary in the event of the Executive's death) in a lump sum within fifteen (15) days of the Executive's Termination Date.

(b) Notwithstanding anything in the previous paragraph or elsewhere in this Agreement, if the Company Terminates the Executive other than for Cause either in anticipation of or as required to accomplish or otherwise substantially contemporaneously with a Change of Control, the Company shall provide the Executive with notice of such Termination, and the Termination shall not be effective until the end of the Notice Period. The Notice Period shall extend until the later of sixty days after the expiration of any period that the Executive must hold shares in the Company in order (i) to avoid liability under Section 16 (b) of the Securities Exchange Act of 1934, as amended or (ii) to comply, at the Company's reasonable request or the Executive's reasonable initiative, with any other legal or accounting regulations or requirements. Provided, however, that in calculating the payments to be made to the Executive pursuant to Section 4.1(a) above, any compensation paid to the Executive with respect to his employment during the Notice Period shall be deducted from the payments due under Section 4.1(a).

4.2 Option Acceleration. Effective upon a Change in Control (as defined below in Section 5) of the Company, all Options and Restricted Stock Awards granted to the Executive and then outstanding under any Stock Option Plan of the Company shall become exercisable and vested in full, and all restrictions thereon shall lapse, notwithstanding any vesting schedule or other provisions to the contrary in the agreements evidencing such options; and the Company and the Executive hereby agree that such Option agreements and Restricted Stock Awards are hereby and will be deemed amended to give effect to this provision.

4.3 Health and Welfare Benefits . Following a Change in Control, the Executive shall be entitled to continue, for six months, to receive the same or comparable health and welfare benefits as he participated in prior to the Change in Control, such as but not limited to life, disability, health, medical, dental, accident and other insurance programs ("Benefits" and the "Benefit Plans"). The Company shall provide such Benefits to the Executive by one or a combination of the following: (i) continuing the Executive as a participant under the Company's then-current benefit plans (provided such plans are comparable to the Company plans prior to the Change in Control), (ii) paying the full premium for the Executive to purchase continuing coverage under the Benefit Plans, under COBRA and/or (iii) paying the Executive a lump sum payment in the amount necessary for the Executive to purchase individual coverage under insurance programs comparable to the Benefit Plans. This paragraph is not intended to limit or affect any other COBRA benefits to which the Executive may be entitled.

4.4 Exercise of Stock Options; Payment of Required Taxes. Following a Change of Control, the Executive may take any or all of the following actions; Provided, however, that the Executive shall not take any such action if the Company reasonably requests that he not do so, in order for the company to comply with or receive favorable treatment under legal or accounting requirements: pay any portion of the exercise price of any Options and/or satisfy any tax withholding with respect to either the exercise of Options or the vesting of Restricted Stock Awards by:

(i) delivering to the Company outstanding shares of common stock of the Company, valued at the closing price of a share of such stock on the last trading day preceding the date of delivery (the "Market Price") and/or

(ii) authorizing the Company to withhold from issuance pursuant to the exercise of any such Option or vesting of Restricted Stock a number of shares of common stock otherwise issuable that, when multiplied by the Market Price of the common stock, is equal to the aggregate exercise price being paid and/or tax being withheld (and such withheld shares shall no longer be issuable under the applicable Option or Restricted Stock Award).

5. Definition of Terms.

5.1 Terminate/Termination. "Terminate," "Terminates," and "Termination" shall mean either (a) the termination of the Executive's employment with the Company or (b) a Change in Status of the Executive, as defined below.

5.2 Change in Status. A "Change in Status" of the Executive shall mean the occurrence, without the Executive's written consent, of any of the following circumstances (unless such circumstances constitute an isolated, insubstantial and inadvertent action not taken in bad faith and are promptly and fully remedied by the Company after receipt of notice thereof by the Executive): (a) any diminution or change in a manner adverse to the Executive of (i) his title, office or position with the Company, (ii) his salary, bonus, or other benefits, or (iii) his duties, responsibilities or employment condition, (b) any breach of this Agreement, including without limitation the failure by the Company to pay to the Executive any portion of his compensation, (c) the Company's requiring the Executive to be based at any office or location more than 35 miles from the company's current main office or the Company's requiring the Executive to travel on Company business to a substantially greater extent than required immediately before the date of this Agreement, or (d) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement.

5.3 Cause. "Cause" shall mean (a) any act of personal dishonesty taken by the Executive in connection with his responsibilities as an employee and intended to result in substantial personal enrichment of the Executive, (b) conviction of a felony that is injurious to the Company, (c) a willful act by the Executive which constitutes gross misconduct and which is injurious to the Company, and (d) continued violations by the Executive of the Executive's obligations under Section 1 of this Agreement that are demonstrably willful and deliberate on the Executive's part (and not resulting from any condition that constitutes, or with the passage of time would constitute, a Disability (as defined below)) after there has been delivered to the Executive a written demand for performance from the Company which describes the basis for the Company's belief that the Executive has not substantially performed his duties, in each case as determined by the Company's Board of Directors.

5.4 Change of Control. "Change of Control" shall mean the occurrence of any of the following events:

(a) Any transaction or series of transactions, as a result of which any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act and the rules and regulations thereunder) (other than (i) the Company, (ii) a person that directly or indirectly controls the Company on the date of this Agreement, (iii) a person that is controlled by or is under common control with the Company or (iv) any one or more employee benefit plans or related trusts established for the benefit of the employees of the Company or any affiliate of the Company) becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(b) A change in the composition of the Board of Directors of the Company occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (i) are directors of the Company as of the date hereof, or (ii) are elected, or nominated for election, to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual not otherwise an Incumbent Director whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(c) A merger or consolidation of the Company with any other corporation or entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the approval by the stockholders of the Company of an agreement for the sale or disposition by the Company of all or substantially all the company's assets.

5.5 Disability. "Disability" shall mean that the Executive has been unable to substantially perform his duties under this Agreement as the result of his incapacity due to physical or mental illness, and such inability, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such Agreement as to acceptability not to be unreasonably withheld). Nothing contained herein shall preclude the Company from appointing or employing any other person to carry out the duties and responsibilities of the Executive, nor shall any such appointment or employment give rise to a Change of Status, in the event of the occurrence of a physical or mental illness or injury likely in the reasonable judgement of the Company to result eventually in a determination of Disability.

5.6 Stock Option Plan. A "Stock Option Plan" of the Company shall mean any stock option or equity compensation plan of the Company in effect at any time, including without limitation the CSP, Inc. 1991 Incentive Stock Plan, 1997 Incentive Stock Plan, 2003 Stock Incentive Plan, 2007 Stock Incentive Plan and any other stock options granted to the Executive. The terms “Option” and “Restricted Stock Award” shall have the meanings ascribed to them in any such Stock Option Plans.

6. Successors.

6.1 Company's Successors. The Company shall cause any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and assets to assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any such successor.

6.2 Executive's Successors. The terms of this Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, devisees and legatees.

7. Notice.

7.1 General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or two business days after being mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

7.2 Notice of Termination or Change in Status. Any Termination by the Company or any claim by the Executive of a Change in Status shall be communicated by a notice to the other party hereto given in accordance with Section 7.1 of this Agreement. Such notice shall indicate the specific provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination or Change of Status under the provision so indicated, and shall specify the Date on which the Executive shall be Terminated or on which the Change of Status occurred. The failure by either party to include in the notice any fact or circumstance which contributes to a showing of Cause or Change in Status shall not waive any right of the party hereunder or preclude the party from asserting such fact or circumstance in enforcing its rights hereunder.

8. Miscellaneous Provisions.

8.1 Waiver . No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

8.2 Whole Agreement. No agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof. The foregoing notwithstanding, this Agreement is unrelated to, and shall have no effect upon any deferred compensation agreement or program in effect regarding the Executive.

8.3 Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Massachusetts without giving effect to its conflicts of laws principles.

8.4 Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

8.5 No Assignment of Benefits . The rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this Section 8.5 shall be void.

8.6 Employment Taxes. All payments made pursuant to this Agreement will be subject to withholding of applicable income and employment taxes.

8.7 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

CSP, Inc.	Executive
By: /s/ Alexander R. Lupinetti	/s/ Robert A. Stellato
Title: CEO	

Exhibit 10.14

MODCOMP

April 11,2003

Mr. Victor Dellovo
President, Hardware Division
Technisource
1901 W. Cypress Creek Road
Suite 100
Ft. Lauderdale, FL 33309

Dear Victor:

I am very pleased to offer you the position of President of the Hardware division of MODCOMP, Inc., a subsidiary of MODCOMP, Inc. (the "Company"), reporting to me. This offer is specifically contingent on, and will be effective as of the closing of the Company's acquisition of Technisource Hardware, Inc. If and when the Company does close on the acquisition of Technisource Hardware, Inc., the following will be the principal terms and conditions of your employment with the Company:

1. Your base compensation will be a salary of $155,000 per year, to be reviewed annually.

2. CSP Inc., parent of the Company will grant to you options for the purchase of 60,000 shares of CSP Inc. Common Stock under the 2003 Stock Option Plan and this will be reviewed annually. The options will be granted on the date you commence employment with MODCOMP Inc. and the price per share will be the fair market value of a share of common stock on that date determined in accordance with the provisions of such Plan. The options will vest at a rate of 25% a year for 4 years, commencing after one year of service. However, if CSP Inc. is acquired by way of sale of substantially all of its assets or by merger or by way of becoming a private company or due to change of control, your options will fully vest at the time of such acquisition. The ownership of the stock options may be assigned to a family member or to a trust for the benefit of your family.

Change of Control of the Company or CSP means (i) any person or entity, including a group as defined by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, becomes the beneficial owner of 50% or more of the outstanding stock or (ii) (a) the Company or CSP merging, consolidating or reorganizing in which members of the Board of the Company or CSP do not constitute a majority of the Board following such transaction or (b) shareholders of the Company or CSP fail to own a majority of stock or assets in the successor company.

3. You will earn a commission on all sales of the Hardware Division, as currently structured, equal to 5% of the Gross Profit.

MODCOMP, Inc.
1650 West McNab Road
Ft. Lauderdale, Florida 33309-1088
Telephone: (954) 974-1380
Fax: (954) 977-1900
E-mail: info@modcomp.com
Internet: http://www.modcomp.com

4. As a full-time employee of the Company, you shall be eligible to participate in any and all employee benefit plans which are non-contributory and at your option to participate in all contributory employee benefit plans. A description of the Company's benefit plans currently being offered is described in the brochure which you have been provided with which includes a 401k plan.

5. You will be enrolled in the Company's Group Life Insurance Plan which is one times your annual salary.

6. You will be entitled to four weeks of vacation during the first year of service with the Company. In Addition, one-week sick leave will be given for illness.

7. If your employment is terminated by the Company other than for "cause" you will be entitled to receive severance pay for twelve months based on your total compensation in the prior fiscal year. This will be paid in 12 monthly installments, with the first installment paid on the month immediately following termination. Such no-cause termination will also provide for the immediate vesting of your current and outstanding Stock options. As used herein "cause" shall mean any material breach by you of any agreement to which you and the Company are both parties; theft or misappropriation of Company funds or assets, or intentionally damaging the Company's assets; falsification of Company records; willful failure or refusal to perform duties reasonable assigned; conviction (including guilty plea) of a felony which creates apprehension or insecurity on the part of the Board or other officers of the Company; or acting either willfully or with gross negligence in a disloyal manner or to the detriment of the Company's best interest. In addition, you may forfeit your severance pay if you violate certain terms of the Employee Non-Competition, Invention and Non-Disclosure Agreement.

8. So long as you are employed by the Company, you agree to devote your full time, skill and energy, diligently, loyally, effectively and to the best of your ability, to the performance of your duties as President, or such other duties as may be assigned by the President of MODCOMP.

9. You will be required to execute the attached Employee Non-Competition, Invention and Non-Disclosure Agreement.

10. If your manager changes your job responsibilities in a way that negatively impacts your earnings potential, you can resign without obligation to the non-competition clause (Section # 9) in the Employee Non-Competition, Invention and Non-disclosure Agreement.

11. As the business grows, it is anticipated that your fixed and variable compensation will evolve with your managerial responsibilities, i.e. bottom line focus. These changes will be agreed to by you and the President of MODCOMP as they occur.

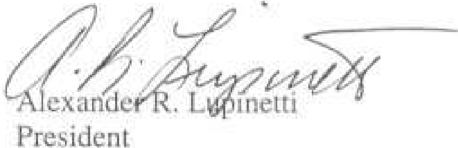
12. You are not being offered employment for a definite term and understand that either you or the Company may terminate your employment at any time for any reason and without prior notice.

13. You will be entitled to reimbursement for expenses reasonably incurred in connection with the activities of the Company. To provide for expenses, you shall be entitled to an American Express Corporate Card ("AMEX") for business expenses. The AMEX card may also be used for customer purchase orders. You will be responsible for submitting appropriate reimbursement/expense forms. Additionally, the Company shall also pay or provide for a cellular phone.

14. If you agree with the terms of employment outlined above, would you please sign and date the enclosed copy of this letter and attached agreement and return it to me.

On behalf of the Company, I look forward to working together with you to make MODCOMP Hardware a tremendous success under your stewardship.

Sincerely,



Alexander R. Lupinetti
President

I hereby accept this offer of employment:

Victor Dellovo

3/16/03
Date

MODCOMP INC.

Employee Non-Competition, Invention and Non-disclosure Agreement

In consideration of my employment by MODCOMP Inc., a Florida corporation, or any parent, subsidiary or organization (hereinafter collectively called the "Company"), and of the wages and/or salary to be paid me, I hereby covenant and agree with the Company as follows:

1. Disclosure of Inventions

I agree that I will forthwith communicate in writing to the Company, or such individual as the Company may from time to time designate, a full and complete disclosure of any and all research and other information, inventions, discoveries and improvements ("Inventions") made, developed and/or conceived and/or reduced to practice by me alone or jointly with others while in the employ of the company which are reasonably related to the business of the Company as a Computer hardware and software distributor with related professional services.

2. Assignment of Inventions

I agree to, and hereby do, assign and transfer to the Company, or its nominee or designee (without any separate remuneration or compensation to me other than the compensation received or assigned to me from time to time in the course of my aforesaid employment), all my right, title and interest throughout the world in and to such Inventions, together with the right to file and/or own wholly and without restriction applications for United States and foreign patents and trademarks and any patent and trademark issued or issuing thereon. I agree to execute all appropriate patent applications for securing all United States and foreign patents on all Inventions and to do, execute and deliver any and all acts and instruments that may be necessary or proper to vest all such Inventions and patents (both United States and foreign) in the Company, or its nominee or designee, and to enable the Company, or its nominee or designee, to obtain all such letters patent; and that I will render to the Company, or its nominee or designee, all such assistance as it may require in the prosecution of all such patent applications, or all other proceeding referred to hereinabove, shall be borne by the Company or its nominee or designee. I will execute, upon request, documents, which secure to the Company and interests here conveyed, provided that all fees or payments connected with the execution of the documents shall not be a charge upon me.

If for any reason I am incapable or unwilling to sign documents required by this Section 2, I now unconditionally and irrevocably appoint Company's President as my agent and attorneys-in-fact for me and on my behalf to execute any documents, file any applications or to take any other action lawfully permitted or required to be taken to obtain, exercise or enforce any of Company's rights associated with this Section 2 so long as notice is provided to me prior to execution of any documents on my behalf.

I will assist, upon request, in locating writings and other physical evidence of the making of my inventions and provide unrecorded information relating to them, and give testimony in any proceeding in which any of my inventions or any application or patent directed thereto may be involved, provided that reasonable compensation shall be paid for such services, except that no obligation is imposed to remunerate at a higher rate for the giving of testimony than the rate established by law for the compensation of witnesses in the court or tribunal where the testimony is given or in the district where the testimony is taken. To the extent reasonably feasible, the Company will use its best efforts to request such assistance at times and places as will least interfere with any other employment of mine.

Any Invention reasonably related to the Company's business made, developed and/or reduced to practice by me alone or jointly with others within six (6) months following the termination of my employment shall be deemed to be a "Company" invention, unless proved by me to have been conceived after such termination.

3. <u>Unauthorized Disclosure</u>

Unless required by subpoena, court order, and/or by administrative hearing, I agree that I will not, without first obtaining the written approval of the Company, or of such individual as the Company may from time to time designate, divulge or disclose to anyone outside of the Company, whether by private communication or by public address or publication, or otherwise, any information not already lawfully available to the public concerning any inventions, developments, specifications, technical and engineering data, methods or reports relating to the business of the Company, or any corporation, firm or person for whom the Company is conducting or shall conduct research services or is providing or shall provide other services, whether supplied by the Company, or such corporation, firm or person, or whether made, developed and/or conceived by me or by others in the employ of the Company. All originals and copies of any such specifications, technical and engineering data, methods or reports, or other written materials relating to the business of the Company, however and whenever produced, shall be the sole property of the Company, not to be removed from the premises or custody of the Company without in each instance first obtaining written consent or authorization of the individual as the Company may from time to time designate, and shall be surrendered to the Company upon termination of my employment. For purposes of Sections 3 and 5 of this Agreement, information and/or trade secrets which pass into the public domain shall, after the time of such passing, no longer be considered as confidential or secret.

In addition, I agree that I will not directly or indirectly publish or cause to be published any article containing or disclosing any information about the Company or reported or received by the Company from any corporation, firm or person with whom or for whom the Company shall be under contract to provide research service, without the prior written authorization of the Company or of such individual as the Company may from time to time designate.

4. Copyright

I will promptly disclose to the Company all copyrightable material which I produce, compose or write, individually or in collaboration with others, which arises out of work delegated to me by the Company; and, at the expense of the Company, I will assign to it all my interest in such copyrightable material and will sign all papers and do all other acts necessary to assist the Company to obtain copyrights on such material in any and all countries.

5. Trade Secrets

I will not, during my employment by the Company or afterwards, disclose to others or use for my own benefit any trade secrets acquired by me from the Company, its customers, suppliers, consultants or affiliates, except to the extent that the disclosure of such trade secrets is necessary to perform my duties and fulfill my responsibilities as an employee of the Company. (A trade secret is information not generally known to the trade which gives the Company an advantage over its competitors. Trade secrets can include, by way of example, products under development, production methods and processes, sources of supply, materials used in manufacture, customer lists, cost of parts and materials, marketing plans, and information concerning the filing or pendency of patent applications.) A trade secret is not information which has entered the public domain.)

6. Company Property: Termination Certification

Upon the termination of my employment with the Company, I will turn over to the Company all models, prototypes, notes, memoranda, notebooks, drawings, specifications, records, customer lists, proposals, business plans, and other documents or materials, tools, equipment or other property for or otherwise belonging to, the Company, it being acknowledged that all such items are the sole property of the Company, and I agree to sign the following "Termination Certificate".

"This is to certify that I do not have in my possession or custody nor have I failed to return, any models, prototypes, notes, memoranda, notebooks, drawings, records, specifications, customer lists, proposal, business plans, or copies of them, or other documents or materials, tools, equipment or other property belonging to the Company."

7. Non-Solicitation

I agree that for a period of one (1) year after I leave the employment of Company, I shall not, either directly or indirectly: (1) make known to any person, firm or corporation the names and/or addresses of any of the customers or employees of Company or any other information pertaining to them; (2) take away any of the customers of Company on whom I called, or with whom I dealt or became acquainted during my employment with Company; or (3) interfere with the business of Company in any manner including the recruiting or hiring of any employee of Company. I further agree that Company would be irreparably harmed in the event of a breach of this provision, and that money damages would not be an adequate remedy. Accordingly, in addition to any other remedies available at law or in equity, Company shall be entitled to obtain injunctive relief against any such breach or threatened breach.

8. Investigations

I agree that I shall cooperate with Company in the internal investigation regarding and/or in the defense of any charge of illegal activity or wrongdoing involving me or of which I am aware, by virtue of my employment with Company

9. Non-Competition

I agree that, for a period of one (1) year after I leave the employment of Company, I shall not accept a position with or otherwise become affiliated with any other person, firm or corporation in the hardware, software and related professional services business that has the intent or effect of competing with the Company's lines of business as a Computer hardware and software distributor with related professional services.

I acknowledge that the activities carried on by the Company and its affiliates have national business and commercial implications for the Company without geographical limits. I understand and agree that this non-competition provision is necessary for the protection and benefit of Company, because of (i) my position with Company, (ii) the training that I have received at Company's expense, and (iii) my access to Company confidential information. I acknowledge that my employment with a competitor of Company would inherently and inevitably lead to the intentional or inadvertent disclosure of Company's Confidential Information. I further agree that Company would be irreparably harmed in the event of a breach of this provision, and that money damages would not be an adequate remedy. Accordingly, in addition to any other remedies available at law or in equity, Company shall be entitled to obtain injunctive relief against any such breach or threatened breach.

I understand that I am entitled to severance pay under certain circumstances, and that this severance pay is in partial consideration of my agreeing to the provisions of (1)

the Non-Solicitation clause (Section 7) above and (2) this Non-Competition clause. If I violate either of these two provisions, I understand that the Company may, in addition to any other remedies it may have, (1) cease paying any further severance pay and (2) recover any severance pay previously paid to me.

10 Governing Law

The laws of the State of Florida shall govern this Agreement.

11. General Provisions

(a) I further agree that this Agreement shall be binding upon me irrespective of the duration of my employment or other association with the Company, the reasons for the cessation of my employment or other association by the Company, or the amount of my wages and/or salary. Notwithstanding the foregoing or anything else in this Agreement I agree that I am an employee-at-will and that this Agreement does not impose any obligation on Company or me to continue my employment with Company for any definite period of time.

(b) This Agreement is the whole agreement and no modification or variation shall be deemed valid unless in writing signed by the Company.

(c) In the event of any inconsistency with respect to the subject matter of this Agreement and any contract of employment, which I may enter into with the Company, the provisions herein shall prevail.

(d) I represent and warrant to the Company that I am not under any obligations to any person, firm or corporation; and have no other interest which is inconsistent or in conflict with this Agreement, or which would prevent, limit or impair, in any way, the performance by me of any of the covenants hereunder of my duties in my said employment.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 16th day of April, 2003 at Ft. Lauderdale, Florida.

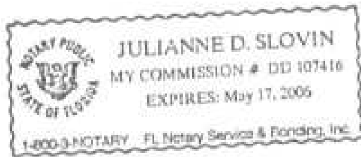
WITNESS:

Victor J. Dellova
Print Name

Signature

Address

2411 N.W 49TH LANE
Boca Raton, FL 33431


JULIANNE D. SLOVIN
MY COMMISSION # DD 107416
EXPIRES: May 17, 2006
1-800-3-NOTARY FL Notary Service & Bonding, Inc.

Julianne D. Slovin

Notary Public
Julianne D. Slovin